

Report
of the
Examination of
Humana Insurance Company
Louisville, Kentucky
As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 22, 2017

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

HUMANA INSURANCE COMPANY
Louisville, Kentucky

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Humana Insurance Company (HIC or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 and 2017 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington participated in the examination, and their work was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an

insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the unpaid claims liability, unpaid claims adjustment expense, aggregate health policy reserves, aggregate health claims reserves, premium deficiency reserves, uncollected premiums and agents' balances in the course

of collection, accrued retrospective premiums, and health care receivables. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company's invested assets portfolio as of December 31, 2015. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Humana Insurance Company is a Wisconsin-domiciled life and health insurer authorized to conduct insurance business pursuant to ch. 611, Wis. Stat. The company was initially organized on December 18, 1968, under the name Classified Life Insurance Company (CLIC). CLIC was acquired by Wisconsin Employers Group, Inc. (WEG) in 1977 and the name of the company was changed to Wisconsin Employers Insurance Company. Ownership and control of WEG was acquired by the American Express group in 1983, and the name of the company was changed to Fireman's Fund Employers Insurance Company effective May 25, 1983.

Lincoln National Corporation (LNC) purchased WEG in 1986, and on December 19, 1986, the name of the company was changed to Employers Health Insurance Company (EHIC). WEG held 11.3% of EHIC capital stock, and Lincoln National Life Insurance Company directly held 88.7% of EHIC capital stock and 100% of the capital stock of WEG. Effective March 15, 1994, LNC transferred ownership and control of WEG and EHIC to Empheys Financial Group, Inc. (EFG) which was established by LNC as an insurance holding company subsidiary. Approximately 60% of EFG capital stock was subsequently sold to investors through registered public stock offerings. In March 1995, LNC's ownership interest in EFG had decreased to 29%, which was transferred to the LNC subsidiary, American States Insurance Company.

Humana Inc. (Humana) acquired ownership and control of EHIC effective October 13, 1995, upon Humana's acquisition and merger of EFG with HEW, Inc., a wholly owned subsidiary of Humana Inc. EFG was the surviving legal entity from the merger of EFG and HEW, Inc. The company was owned 88.7% by EFG and 11.3% by WEG through June 30, 2002.

Effective December 31, 2001, Humana Insurance Company, a then-existing Missouri-domiciled life and health insurance subsidiary of Humana Inc., merged into EHIC. EHIC subsequently changed its name to Humana Insurance Company, the name presently used by the company. Effective June 30, 2002, WEG was merged into EFG, and EFG was merged into CareNetwork, Inc., a Humana subsidiary holding company, resulting in HIC becoming a wholly owned subsidiary of CareNetwork, Inc.

In 2015, the company reported direct premium in the following states:

Texas	\$ 2,901,625,988	12.5%
Ohio	2,655,620,000	11.5
Kentucky	1,520,928,500	6.6
Florida	1,511,771,219	6.5
North Carolina	1,121,133,802	4.8
Georgia	959,610,683	4.1
Virginia	959,297,103	4.1
Illinois	913,738,694	3.9
Wisconsin	893,532,193	3.9
Indiana	880,798,221	3.8
West Virginia	867,724,516	3.7
Michigan	830,272,216	3.6
Mississippi	618,485,663	2.7
All others	<u>6,508,114,365</u>	<u>28.1</u>
Total	<u>\$23,142,653,163</u>	<u>100.0%</u>

The company is licensed in the District of Columbia and in all state jurisdictions except New York.

Humana Insurance Company offers insurance products in two general business segments, the government segment and the commercial segment. The government segment includes Medicare Advantage and Medicare Part D (prescription drug), and represents more than two-thirds of the company's total premiums and administrative services only (ASO) business. The commercial segment consists of employer group members and individuals enrolled in fully insured medical, ASO, and specialty products.

The commercial segment includes fully insured products and self-insured accounts. The company's fully insured products include a preferred provider organization (PPO) that is marketed to employer and other groups, and a variety of consumer-driven health plans that include: a high deductible product, a catastrophic coverage plan, plans with health savings account options, and consumer-choice plans that are offered to individuals.

The company uses various methods to market their Medicare and commercial products including television, radio, the Internet, telemarketing and mailings. The company uses licensed independent brokers and agents and licensed employees to sell its products. Humana also offers health insurance as a Qualified Health Plan insurer on the individual market public exchanges in several states through the Affordable Care Act (ACA).

The following chart is a summary of premium income as reported by the company in 2015.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Comprehensive	\$ 2,382,440,538	\$ 200,295	\$ 7,557,908	\$ 2,375,082,925
Medicare Supplement	259,681,716	923,812	29,428	260,576,100
Dental	170,711,242		665,509	170,045,733
Vision	52,381,189		1,295	52,379,894
Federal employees health benefits plan	34,426,477			34,426,477
Medicare	16,401,668,262		17,263,360	16,384,404,902
Other health	3,796,814,028	111,469,360	136,304,074	3,771,979,314
Life	<u>44,529,711</u>	<u>43,887,072</u>	<u>88,416,783</u>	<u></u>
Total All Lines	<u>\$23,142,653,163</u>	<u>\$156,480,539</u>	<u>\$250,238,357</u>	<u>\$23,048,895,345</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of three members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Each member of the company's board of directors is a senior executive of the parent, Humana Inc., and is also a member of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board.

As of December 31, 2015, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bruce D. Broussard Louisville, KY	President and Chief Executive Officer, Humana Inc.	2016
James E. Murray Louisville, KY	Senior Vice President, Chief Operating Officer, Humana Inc.	2016
Brian A. Kane Louisville, KY	Senior Vice President, Chief Financial Officer, Humana Inc.	2016

Officers of the Company

Each senior executive officer of Humana Insurance Company is also a senior executive officer of Humana Inc. and also serves as an officer in other legal entities within the holding company group. HIC executive officers are compensated by Humana Inc. and do not receive direct compensation remitted by Humana Insurance Company. A portion of the executive officer compensation remitted by Humana Inc. to the HIC executive officers is allocated to HIC pursuant to intercompany expense allocation agreements. The HIC senior executive officers serving as of December 31, 2015, are as follows:

Name	Office	2015 Compensation
Bruce D. Broussard	President and Chief Executive Officer	\$6,263,682
Brian A. Kane	Senior Vice President, Chief Financial Officer	1,059,409
Joan O. Lenahan	Vice President and Corporate Secretary	840,466
Jonathan A. Canine	Vice President and Appointed Actuary	486,987
Alan J. Bailey	Vice President and Treasurer	420,294

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no board members on committees at the time of the examination. The committees of the parent company, Humana Inc., perform comprehensive corporate governance oversight on behalf of each Humana Inc. operating subsidiary including Humana Insurance Company. The Humana Inc. board of directors has the following committees: Audit, Executive, Investment, Nominating & Corporate Governance, and Organization & Compensation.

Audit Committee

Frank D'Amelio, Chair
William Mitchell
David Nash
James O'Brien

Executive Committee

Bruce Broussard, Chair
Kurt Hilzinger
David Jones, Jr.

Nominating & Corporate Governance Committee

David Jones, Jr., Chair
William Mitchell
Marissa Peterson

Organization & Compensation Committee

William McDonald, Chair
David Jones, Jr.
W. Roy Dunbar
Marissa Peterson

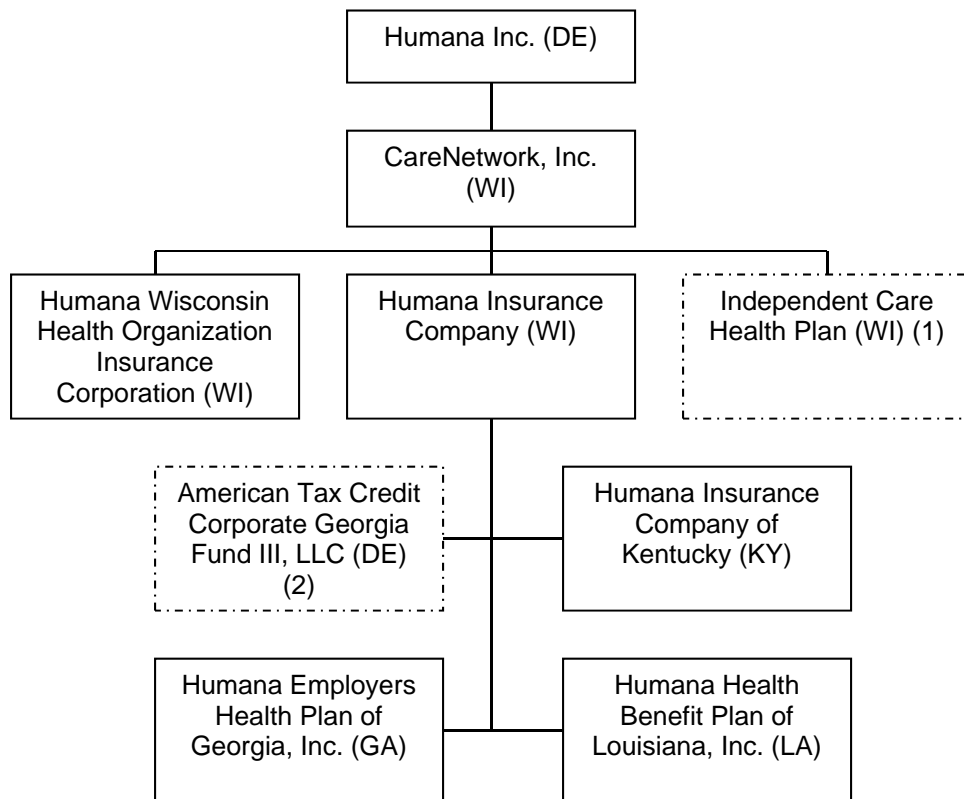
Investment Committee

W. Roy Dunbar, Chair
Frank D'Amelio
William McDonald
James O'Brien

IV. AFFILIATED COMPANIES

HIC is a member of a holding company system. As previously stated, its ultimate parent is Humana Inc. There are 34 downstream insurance affiliates operating in 17 states and Puerto Rico. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of control of the company. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2015**



(1) Ownership is 50% by CareNetwork, Inc., and 50% by New Health Services, Inc., an affiliate of Milwaukee Center for Independence, Inc., an unaffiliated entity.

(2) Ownership is 58.1736% by Humana Insurance Company, 1.6029% by The Savannah Bank N.A., an unaffiliated entity, and 40.2133% by GMAC Insurance Georgia, LLC, organized for the purpose of investing in apartment complexes generating Georgia state low-income housing tax credits.

Humana Inc.

Humana Inc. is an insurance holding company which provides indemnity insurance, managed health care insurance, and specialty service products through the operations of its subsidiary companies. Humana Inc. was incorporated on July 27, 1964, and is a Delaware corporation. Humana products are offered primarily through subsidiary life and health indemnity insurers, health maintenance organizations (HMO), and preferred provider organizations, and are marketed for employer groups, government benefit programs, and individuals.

As of December 31, 2015, the GAAP basis audited financial statements of Humana Inc. reported total assets of \$24.7 billion, total liabilities of \$14.4 billion, and total stockholders' equity of \$10.3 billion. Operations for 2015 produced net income of \$1.3 billion.

CareNetwork, Inc.

CareNetwork, Inc., is a non-operating intermediate holding company, domiciled in Wisconsin, which holds the assets of certain Humana operating subsidiaries. CareNetwork, Inc., holdings include the Wisconsin-domiciled insurers Humana Insurance Company and Humana Wisconsin Health Organization Insurance Corporation.

As of December 31, 2015, the GAAP basis unaudited, non-consolidated financial statements of CareNetwork, Inc., reported total assets of \$1,951.3 million, total liabilities of \$10.0 million, and total stockholders' equity of \$1,941.3 million. Operations for 2015 produced a net loss of \$2.0 thousand.

Humana Employers Health Plan of Georgia, Inc.

Humana Employers Health Plan of Georgia, Inc. (HEHPG) was organized and licensed in Georgia in 1996 as an HMO and commenced operations in 1997. HEHPG provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2015, the statutory basis audited financial statements of HEHPG reported total admitted assets of \$985,938,263, total liabilities of \$685,144,826, and policyholders' surplus of \$300,793,437. Operations for 2015 produced a net loss of \$205,740,066.

Humana Insurance Company of Kentucky

Humana Insurance Company of Kentucky (HICK) is a Kentucky-domiciled life and health insurance company that offers health plan insurance coverages in Kentucky. HICK provides individual indemnity, group life, and Medicare supplement products to insureds in Kentucky and provides stop-loss products to self-insured employers or other groups.

As of December 31, 2015, the statutory basis audited financial statements of HICK reported total admitted assets of \$432,873,714, total liabilities of \$310,661,993, and policyholders' surplus of \$122,211,721. Operations for 2015 produced a net loss of \$2,819,626.

Humana Health Benefit Plan of Louisiana, Inc.

Humana Health Benefit Plan of Louisiana, Inc. (HHBPL) is a Louisiana-domiciled health maintenance organization formerly known as Ochsner Health Plan, Inc. Ochsner Health Plan, Inc., was acquired by Humana Insurance Company on April 1, 2004, and its name was subsequently changed to Humana Health Benefit Plan of Louisiana, Inc. HHBPL is licensed in Louisiana as an HMO and provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMOs and preferred provider organizations.

As of December 31, 2015, the statutory basis audited financial statements of HHBPL reported total admitted assets of \$396,389,627, total liabilities of \$216,647,399, and policyholders' surplus of \$179,742,228. Operations for 2015 produced net income of \$36,553,089.

American Tax Credit Corporate Georgia Fund III, LLC

American Tax Credit Corporate Georgia Fund III, LLC (State Fund) is a limited liability company established under the laws of Delaware in 2004. State Fund invests in operating limited partnerships that acquire, rehabilitate, own and operate low- and moderate-income residential rental properties. Humana Insurance Company is an Investor Member and held a 58.17% distribution interest in State Fund as of year-end 2015.

As of December 31, 2015, the audited GAAP basis financial statements of American Tax Credit Corporate Georgia Fund III, LLC, reported total assets of \$5,884, total liabilities of

\$586,117, and members' deficit of \$580,233. Operations for 2015 produced a net loss of \$105,728.

Humana Wisconsin Health Organization Insurance Corporation

Humana Wisconsin Health Organization Insurance Corporation (Humana WHO) was incorporated in Wisconsin in 1985 as a health maintenance organization under the name Wisconsin Health Organization Insurance Corporation (WHO). Humana Inc. acquired Humana WHO on December 20, 1994, and the name Wisconsin Health Organization Insurance Corporation was changed to Humana Wisconsin Health Organization Insurance Corporation. Humana WHO provides coordinated health insurance coverages and services primarily to employer groups through product options that include HMO and PPO products.

As of December 31, 2015, the statutory basis audited financial statements of Humana WHO reported total admitted assets of \$179,428,226, total liabilities of \$92,004,685, and policyholders' surplus of \$87,423,541. Operations for 2015 produced a net loss of \$17,649,873.

Independent Care Health Plan

Independent Care Health Plan (I-Care) commenced business as a separate entity on June 18, 2003. CareNetwork, Inc., owns 50% and New Health Services, a subsidiary of Milwaukee Center for Independence, a 501(c)(3) nonprofit, owns 50%. I-Care members are all covered under Title XVIII (Medicare) or Title XIX (Medicaid) with a special emphasis on dual-eligible members.

As of December 31, 2015, the statutory basis audited financial statements of I-Care reported total admitted assets of \$68,248,215, total liabilities of \$40,721,544, and policyholders' surplus of \$27,526,671. Operations for 2015 produced net income of \$5,291,577.

Agreements with Affiliates

Indemnity Agreement between HIC and Humana Inc.

Humana Insurance Company and Humana Inc. entered into an indemnity agreement October 12, 1995, whereby Humana Inc. agrees to indemnify HIC from any and all liability or loss that HIC may suffer as a result of HIC's failure to perform its insurance risk obligations in the event that HIC should become insolvent or otherwise financially incapable of meeting its

obligations. Under the agreement, Humana Inc. guarantees continuation of coverage under certificates of coverage issued by HIC for the duration of the contract for which payment has been made, continuation of benefits to HIC members who are confined in an inpatient facility on the date of insolvency until the member's discharge, and payment to providers for services rendered before insolvency and required by HIC's certificates of coverage. Humana also agrees to indemnify HIC and hold harmless HIC from any and all liability and loss that HIC may suffer arising from HIC's provision of administrative services to Humana Inc.

Tax Allocation Agreement between HIC and Humana Inc.

Humana Insurance Company is party to a Tax Allocation Agreement with Humana Inc. entered into on December 31, 1996. The agreement provides that Humana Inc. will file consolidated tax returns for all of the legal entities in the Humana Inc. holding company group, including HIC. The consolidated tax liability for each year shall be apportioned to Humana Inc. and its subsidiaries based on applicable provisions of the Internal Revenue Code, based on the ratio which the portion of consolidated tax liability attributable to each respective member of the group bears to the consolidated tax liability. Humana Inc. shall credit to each respective affiliate 100% of the excess of the affiliate's separate return tax liability over its allocated consolidated tax return liability. Humana Inc. is responsible for the preparation and filing of all consolidated tax returns and any other returns or documents required to be filed with the Internal Revenue Service.

Corporate Service Agreement between HIC and Humana Inc.

Humana Insurance Company is party to a Corporate Service Agreement effective January 3, 2007, with Humana Inc. It has been amended on January 1, 2011, and January 1, 2013, for regulatory compliance purposes. Humana Inc. provides services supporting the business operations of HIC, such as payroll, trade accounts payments, broker commissions, medical and product management, executive management, information systems, financial and legal services, human resource and sales distribution management, and related services. Humana Inc. receives a direct reimbursement for services with direct costs and a pro rata share of costs of shared services and overhead based upon weighted membership. The agreement

provides that Humana Inc. collects funds due to HIC in the operation of its business and performs any necessary banking and accounting administrative duties to properly accomplish collections and disbursements of funds on behalf of HIC.

Medicare Risk Marketing Service Agreement between HIC and MPoint

A Medicare Risk Marketing Service Agreement effective June 7, 2006, is in force between Humana MarketPoint, Inc. (MPoint), HIC, and Humana Inc. as Repository. It has been amended January 1, 2011, and January 1, 2013, for regulatory compliance purposes. Under the terms of the agreement, MPoint provides marketing services including the provision of staff, systems, and related support to HIC in order to market Humana Medicare Risk Products. Fees for services provided under this agreement are outlined in Schedule B of the agreement.

Services Agreement between HIC, HHP-C, and Humana Inc.

A Services Agreement effective January 1, 2010, and amended January 1, 2011, and January 1, 2013, is in effect between HIC and Humana Health Plan of California (HHP-C) with Humana Inc. as the Repository. Under the terms of the agreement, HHP-C provides HIC certain tax services, including reporting required federal and state tax withholdings for third-party disability payments to individuals and year-end reporting and filing as needed on the state and federal levels.

Service Center Service Agreements between HIC, Affiliated Companies, and Humana Inc.

HIC has established separate service center service agreements with 29 affiliated companies, using Humana Inc. as Repository. The agreements provide that HIC will provide the affiliates with one or more health care management services, including claims adjudication and claims processing, customer service, front-end operations, billing and enrollment, utilization review, and other support activities to include education and development, financial management, and systems administration. HIC expenses allocated to the recipients of services include general business expenses incurred by HIC in performance of the services. Humana Inc. serves as the Repository under each service center agreement, pursuant to which Humana Inc. shall disburse and collect management fees that are required by the agreements, and shall perform any necessary banking and administrative duties required to accomplish its Repository duties. The

company amended this contract in 2011 to reflect changes in the cost allocation model required under the National Association of Insurance Commissioners Model Insurance Holding Company System Regulatory Act and federal health insurance reforms. This amendment also integrated some previously separate affiliate agreements into this agreement.

Humana Insurance Company currently has service center services agreements with the following affiliates as of December 31, 2015:

- American Eldercare, Inc.
- Arcadian Health Plan, Inc.
- Cariten Health Plan Inc.
- CHA HMO, Inc.
- CompBenefits Company
- CompBenefits Dental
- CompBenefits Insurance Co.
- DentiCare, Inc.
- EmpheSys Ins. Co.
- Humana Behavioral Health, Inc.
- Humana Benefit Plan of Illinois, Inc.
- Humana Dental Concern, Ltd.
- Humana Employers Health Plan of Georgia, Inc.
- Humana Health Benefit Plan of Louisiana, Inc.
- Humana Health Company of New York, Inc.
- Humana Health Insurance Co. of Florida, Inc.
- Humana Health Plan, Inc.
- Humana Health Plan of California, Inc.
- Humana Health Plan of Ohio, Inc.
- Humana Health Plan of Texas, Inc.
- Humana Insurance Company of Kentucky
- Humana Insurance Company of New York
- Humana Medical Plan
- Humana Medical Plan of Michigan, Inc.
- Humana Medical Plan of Pennsylvania, Inc.
- Humana Medical Plan of Utah, Inc.
- Humana Regional Health Plan, Inc.
- Humana Wisconsin Health Org. Ins. Co.
- HumanaDental Insurance Company
- The Dental Concern, Inc.

V. REINSURANCE

A brief summary of the company's reinsurance portfolio is described below. The company does not engage in material unaffiliated reinsurance transactions. A list of the significant reinsurance contracts in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Current Assuming Reinsurance Agreements

Humana Insurance Company entered into three Risk-Sharing Agreements with HealthMarkets Insurance Company, a member of the AFLAC Group, effective January 1, 2013, which encompasses Prescription Drug Plans with HIC assuming 40% of the risk for covered policies.

Humana Insurance Company entered into an intercompany agreement to assume various group and individual supplemental voluntary insurance products, group life, short-term and long-term disability from Kanawha Insurance Company with 100% of the risk transferred to HIC effective October 1, 2014. On June 9, 2016, retroactive to January 1, 2016, the company terminated this reinsurance agreement. The business was ceded to Humana Insurance Company of Kentucky under the 100% ceding agreement below.

Humana Insurance Company entered into four small intercompany indemnity, assumption, and retrocession reinsurance agreements with its Wisconsin-domiciled affiliate HumanaDental Insurance Company (HDIC) during 2014 and 2015, in which HIC assumes certain dental and vision policies from HDIC based on the state and policy type. HIC initially reinsures the policies under the indemnity portion of the agreement until they are assumed by HIC through novation. HIC then retrocedes those policies that arose prior to the effective date to HDIC.

Current Ceding Reinsurance Agreements

HIC entered into a Medicare Alliance Agreement with CIGNA Corporation, as of April 15, 2010, which authorizes CIGNA to market HIC's group Medicare Advantage products and services. HIC cedes a 50% quota share of the premium and risk associated with the group Medicare Advantage to Connecticut General Life Insurance Company, a subsidiary of CIGNA.

HIC cedes to Hannover Life Reassurance Company of America (Hannover), through a coinsurance agreement, 50% of individual term life business with face amounts equal to or less than \$150,000. Each company's maximum retention is \$500,000 per life. This agreement was terminated as of February 28, 2006, for new business. Policies with effective dates through February 28, 2006, remained partially ceded to Hannover. Policies effective March 1, 2006, and later are retained by HIC.

HIC cedes to RGA Reinsurance Company (RGA), through a first-dollar quota share agreement, all individual term life business with a face value greater than \$150,000 (other than individual term life policies sold to Humana employees) not to exceed \$4,000,000 per policy and \$5,000,000 per individual life. Face amounts in excess of these limits are subject to facultative review. For each insured, HIC retains 50% up to a maximum of \$500,000. For face amounts greater than \$1,000,000, RGA coinsures 100% of amounts in excess of \$1,000,000.

HIC cedes all group term life insurance in excess of \$350,000 Basic and \$350,000 Voluntary to Swiss Re Life and Health America (Swiss Re). The \$350,000 attachment point applies separately to Basic and Voluntary for each member covered. The company also cedes all group AD&D coverage in excess of \$350,000 Basic and \$350,000 Voluntary to Swiss Re.

HIC has commercial excess of loss contracts with Axis Insurance Company (Axis) for Fully-Insured Medical Excess of Loss and Stop-Loss Medical Excess of Loss. The contracts were effective October 1, 2015, and were not renewed so they terminated on September 30, 2016. Axis is liable for 100% of the ultimate net loss in excess of Humana's retention of \$3,000,000, which shall not exceed \$9,000,000.

HIC cedes 100% of a closed book of older Long-Term Disability business to UNUM Life Insurance Company of America.

HIC has ceded 100% of Pre-2000 Medicare supplement business to United Teacher Associates Insurance Company.

HIC entered into a coinsurance agreement with Humana Insurance Company of Kentucky, whereby HIC ceded, and HICK assumed, 100% quota share of all of HIC's non-health insurance business, including all of its individual and group life, annuity, deposit-type contracts,

specified disease, short-term and long-term disability, accident or accidental death and dismemberment, hospital indemnity insurance business and any other products not included in the Annual Statement Health Test calculation. The effective date of the contract was January 1, 2014. This transaction allowed HIC to qualify to use the NAIC Health Blank instead of the Life Blank.

Affordable Care Act Transitional Reinsurance Program (through 2016)

The transitional reinsurance program based on Section 1341 of the ACA is effective for plan years 2014 through 2016. Reinsurance assessments will be collected and distributions will be issued during the three-year term. Reinsurance is provided under this program once an insured member reaches his or her maximum out-of-pocket (MOOP) cost. Expenses above the MOOP up to \$70,000 are the full responsibility of the company. Medical expenses above \$70,000 up to \$250,000 covered under the reinsurance at a 50% coinsurance level. Expenses above \$250,000 are the responsibility of the company.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Humana Insurance Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$2,520,537,473	\$	\$2,520,537,473
Stocks:			
Common stocks	602,747,386		602,747,386
Mortgage loans on real estate:			
First liens	8,550,000		8,550,000
Real estate:			
Occupied by the company	9,517,312		9,517,312
Cash, cash equivalents, and short-term investments	54,828,337		54,828,337
Receivables for securities	300,000		300,000
Investment income due and accrued	24,402,650		24,402,650
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	157,898,415	21,944,162	135,954,253
Accrued retrospective premiums and contracts subject to redetermination	582,202,696	77,001,521	505,201,175
Reinsurance:			
Amounts recoverable from reinsurers	96,890,787		96,890,787
Other amounts receivable under reinsurance contracts	17,589,990		17,589,990
Amounts receivable relating to uninsured plans	1,767,056,267	333,871	1,766,722,396
Net deferred tax asset	299,952,839	47,128,045	252,824,794
Electronic data processing equipment and software	19,815,562	1,539,749	18,275,813
Furniture and equipment, including health care delivery assets	29,735,011	29,735,011	
Receivable from parent, subsidiaries and affiliates	53,666,779		53,666,779
Health care and other amounts receivable	517,635,356	2,456,229	515,179,127
Write-ins for other than invested assets:			
Federal contingency reserves	123,993		123,993
Prepaid commissions	22,534,662	22,534,662	
Prepaid expenses	10,530,812	10,530,812	
Deposits	<u>4,452,020</u>	<u>4,452,020</u>	<u> </u>
Total Assets	<u>\$6,800,968,347</u>	<u>\$217,656,082</u>	<u>\$6,583,312,265</u>

**Humana Insurance Company
Liabilities and Net Worth
As of December 31, 2015**

Claims unpaid		\$1,738,135,808
Accrued medical incentive pool and bonus payments		5,171,113
Unpaid claims adjustment expenses		13,819,735
Aggregate health policy reserves		305,758,603
Aggregate health claim reserves		585,000
Premiums received in advance		137,629,299
General expenses due or accrued		292,813,887
Current federal and foreign income tax payable and interest thereon		97,901,954
Ceded reinsurance premiums payable		23,169,673
Amounts withheld or retained for the account of others		1,115,859
Remittance and items not allocated		24,493,020
Funds held under reinsurance treaties with reinsurers		250,211,019
Liability for amounts held under uninsured accident and health plans		<u>50,421,253</u>
Total liabilities		2,941,226,223
Special surplus – projected HCRL assessment for the upcoming year	\$ 406,722,730	
Common capital stock	8,833,336	
Gross paid in and contributed surplus	2,007,090,432	
Unassigned funds (surplus)	<u>1,219,439,544</u>	
Total capital and surplus		<u>3,642,086,042</u>
Total Liabilities, Capital and Surplus		<u>\$6,583,312,265</u>

Humana Insurance Company
Statement of Revenue and Expenses
For the Year 2015

Net premium income		\$23,306,901,282
Change in unearned premium reserves and reserve for rate credits		<u>93,002,251</u>
Total revenues		23,141,897,596
Medical and hospital:		
Hospital/medical benefits	\$13,886,312,002	
Other professional services	675,713,182	
Emergency room and out-of-area	696,118,882	
Prescription drugs	4,250,750,179	
Incentive pool and withhold adjustments	<u>14,864,928</u>	
Subtotal	19,523,759,173	
Less		
Net reinsurance recoveries	<u>136,428,031</u>	
Total medical and hospital	19,387,331,142	
Claims adjustment expenses	971,083,319	
General administrative expenses	2,187,366,364	
Increase in reserves for life and accident and health contracts	<u>36,600,333</u>	
Total underwriting deductions		<u>22,582,381,158</u>
Net underwriting gain or (loss)		559,516,438
Net investment income earned	192,069,671	
Net realized capital gains or (losses)	<u>41,703,937</u>	
Net investment gains or (losses)		233,773,608
Miscellaneous income		<u>3,987,239</u>
Net income or (loss) before federal income taxes		797,277,285
Federal and foreign income taxes incurred		<u>375,468,855</u>
Net Income (Loss)		<u>\$ 421,808,430</u>

**Humana Insurance Company
Statement of Cash Flows
As of December 31, 2015**

Premiums collected net of reinsurance		\$22,907,217,442
Net investment income		<u>229,806,883</u>
Total		23,137,024,325
Less:		
Benefit- and loss-related payments	\$19,491,887,910	
Commissions, expenses paid and aggregate write-ins for deductions	3,511,478,552	
Federal and foreign income taxes paid (recovered) \$13,577,820 net tax on capital gains (losses)	<u>376,386,811</u>	
Total		<u>23,379,753,273</u>
Net cash from operations		(242,728,948)
Proceeds from investments sold, matured or repaid:		
Bonds	\$2,742,850,150	
Real estate	45,644	
Net gains (losses) on cash, cash equivalents, and short- term investments	25,076	
Miscellaneous proceeds	<u>5,900</u>	
Total investment proceeds	2,742,926,770	
Cost of investments acquired—long-term only:		
Bonds	2,261,965,287	
Stocks	700,000,000	
Miscellaneous applications	<u>300,000</u>	
Total investments acquired	<u>2,962,265,287</u>	
Net cash from investments		(219,338,517)
Cash provided/applied:		
Capital and paid in surplus, less treasury stock	602,155,456	
Other cash provided (applied)	<u>12,091,727</u>	
Net cash from financing and miscellaneous sources		<u>614,247,183</u>
Net change in cash, cash equivalents, and short-term investments		152,179,718
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>(97,351,381)</u>
End of Year		<u>\$ 54,828,337</u>

**Humana Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2015**

Assets			\$6,583,312,265
Less security surplus of insurance subsidiaries			602,747,386
Add security surplus excess of insurance subsidiaries			425,089,736
Less liabilities			<u>2,941,226,223</u>
Adjusted surplus			3,464,428,392
Annual premium:			
Individual life and health	\$12,612,536,263		
Factor	<u>15%</u>		
Total		\$1,891,880,439	
Group life and health	6,736,744,975		
Factor	<u>10%</u>		
Total		673,674,497	
All other insurance (P&C)	3,699,614,107		
Factor	<u>7%</u>		
Total		258,972,987	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,824,527,923</u>
Compulsory Surplus Excess or (Deficit)			<u>\$ 639,900,469</u>
Adjusted surplus (from above)			\$3,464,428,392
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>3,106,980,715</u>
Security Surplus Excess or (Deficit)			<u>\$ 357,447,677</u>

**Humana Insurance Company
Capital and Surplus Account
For the Five-Year Period Ending December 31, 2015
(Thousands of Dollars)**

The following schedule details items affecting the company's total capital and surplus during the period under examination as reported by the company in its filed annual statements.

	2015	2014	2013	2012	2011
Capital and surplus, beginning of year	\$3,307,500	\$3,075,209	\$2,656,098	\$2,774,267	\$2,606,566
Net income (loss)	421,808	505,268	682,850	523,511	657,240
Change in net unrealized capital gains/losses	(624,205)	(22,785)	(29,722)	(11,437)	3,669
Change in net deferred income tax	61,767	10,101	19,817	56,793	46,949
Change in nonadmitted assets	(67,351)	62,954	(14,991)	(65,816)	(19,275)
Change in asset valuation reserve			(24,452)	8,295	(8,744)
Cumulative effect of changes in accounting principles				28,285	
Surplus adjustments:					
Paid in	602,155	97,739	50,609	15,890	13,333
Dividends to stockholders		(500,000)	(265,000)	(655,000)	(525,000)
2016 risk corridor impact on premium deficiency reserve:	<u>(59,589)</u>	<u>79,013</u>	<u> </u>	<u>(18,689)</u>	<u>(472)</u>
Surplus, End of Year	<u>\$3,642,086</u>	<u>\$3,307,500</u>	<u>\$3,075,209</u>	<u>\$2,656,098</u>	<u>\$2,774,267</u>

**Humana Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2013**

The company's NAIC Insurance Regulatory Information System (IRIS) results for years 2011 through 2013 are summarized below. IRIS results were not produced beyond 2013 because the company began reporting on the Health Blank in 2014. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2013	2012	2011
#1 Net change in capital and surplus	14%	-5%	6%
#2 Gross change in capital and surplus	16	-4	6
#3 Net income to total income	3	3	4
#4 Adequacy of investment income	NR	48,177*	48,879*
#5 Nonadmitted to admitted assets	4	4	2
#6 Total real estate and mortgage loans to cash and invested assets	0	0	0
#7 Total affiliated investments to capital and surplus	12	13	11
#8 Surplus relief	1	0	0
#9 Change in premium	5	12	1
#10 Change in product mix	0.2	0.4	1.1
#11 Change in asset mix	0.3	0.0	0.1
#12 Change in reserving	-19	3	-23*

Ratio No. 4 compares the net investment income to the increase in reserves from tabular interest. The exceptional results for Ratio No. 4 were due to the company being primarily a group health insurer. Because the company's business is not written on a level-premium basis like individual life insurance, there are no tabular reserves. Due to the nature of the company's business, the exceptional results are not an indication of insufficient reserves.

Ratio No. 12 evaluates the aggregate year-to-year change in reserves for individual life insurance taken as a percentage of renewal and single premiums for individual life insurance. The company had exceptional results in 2011. The predominant block of life business within the company is level term business. This business creates deficiency reserves when applying the Valuation Life Insurance Policies Model Regulation. These deficiency reserves tend to be large in the first year and gradually reduce over the succeeding periods. The results in 2011 stem from the company's decision in 2009 to reduce marketing efforts on this product. As a result, deficiency reserves decreased as the lesser deficiencies on the in-force business more than

offset deficiencies established on new issues. The exceptional results are not an indication of insufficient reserves.

**Growth of Humana Insurance Company
Reporting as a Life Accident and Health Company**

Year	Admitted Assets	Liabilities	Capital and Surplus
2013	\$5,620,432,085	\$2,545,223,064	\$3,075,209,021
2012	5,421,296,898	2,765,199,052	2,656,097,846
2011	5,403,945,772	2,629,678,622	2,774,267,150
2010	4,864,669,887	2,258,103,827	2,606,566,057

Net Life Premiums, Annuity Considerations, and Deposits

Year	Life Insurance Premiums	Annuity Considerations	Deposit-type Contract Funds
2013	\$ 0	\$0	\$0
2012	38,711,540	0	0
2011	35,007,054	0	0
2010	32,111,313	0	0

Life Insurance In Force (in thousands)

Year	In Force End of Year	Reinsurance Ceded	Net In Force
2013	\$13,295,487	\$13,295,487	\$ 0
2012	12,270,094	173,392	12,096,702
2011	11,015,392	172,850	10,842,542
2010	9,568,668	183,513	9,385,155

Accident and Health

Year	Net Premiums Earned	Incurred Claims and Cost Containment Expenses*	Commissions Incurred	Other Expenses Incurred**	Combined Loss and Expense Ratio
2013	\$19,802,778,267	\$16,992,511,812	\$354,090,079	\$1,696,346,508	96.2%
2012	18,428,335,202	16,052,491,791	369,331,075	1,464,131,471	97.0
2011	16,493,330,327	13,832,486,073	365,480,516	1,525,409,281	95.4
2010	16,119,654,975	13,278,075,552	339,655,914	1,669,492,272	96.1

* Includes increase in contract reserves

** Includes taxes, licenses, and fees

**Growth of Humana Insurance Company
Reporting as a Health Company**

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2015	\$6,583,312,265	\$2,941,226,223	\$3,642,086,042	\$23,048,895,345	\$19,387,331,142	\$421,808,430
2014	6,237,012,936	2,929,513,208	3,307,499,728	22,306,901,282	18,520,238,842	505,267,782

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2015	1.8%	84.1%	13.7%	5.9%
2014	2.3	83.0	16.5	

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2015	9,319,079	556.40	9.6
2014	8,796,990	589.37	9.5

Per Member Per Month Information

	2015	2014	Percentage Change
Premiums:			
Commercial	\$271.64	\$310.16	-12.4%
Medicare	829.39	872.65	-5.0
Expenses:			
Hospital/medical benefits	142.05	152.16	-6.6
Other professional services	5.62	4.76	18.2
Emergency room and out-of-area	7.12	5.57	27.8
Prescription drugs	43.48	44.60	-2.5
Incentive pool and withhold adjustments	0.15	0.02	876.6
Less: Net reinsurance recoveries	<u>(1.39)</u>	<u>(1.55)</u>	-9.9
Total medical and hospital	197.04	205.56	-4.1
Claims adjustment expenses	9.90	10.94	-9.6
General administrative expenses	21.70	24.18	-10.3
Increase in reserves for accident and health contracts	<u>0.37</u>	<u>(0.15)</u>	-355.8
Total Underwriting Deductions	<u>\$229.00</u>	<u>\$240.53</u>	-4.8

Humana Insurance Company is the lead operating entity for Humana Inc., writing almost half of the organization's premiums. As indicated above, the company has reported

favorable operating results for all the years under examination. During the period under examination, the company's admitted assets increased 35%, health premiums earned increased 43% and surplus increased by 40%.

In 2009 the company made the decision to reduce marketing efforts on its life business, and in 2013 HIC ceded all of its retained life business to HICK and began focusing solely on health insurance business. HIC has experienced an overall increase in its health insurance business with the largest increase occurring from 2013 to 2014 with the implementation of ACA.

Overall invested assets declined 6% from the prior year. HIC changed its investment mix during 2015 resulting in 15% decline in bonds. Proceeds on the sale of bonds were used to support the company's growth. In 2015, cash, cash equivalents, and short-term investments increased by 155%. The company paid a dividend in every year during the examination period except for 2015.

HIC had favorable operations in all years under examination. In 2015, the company's medical expense ratio increased to 84.1%, while its administrative expense ratio decreased to less than 13.7%, resulting in a favorable profit margin ratio in 2015. The resulting net income of \$421.8 million declined slightly from the prior year.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2015, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Security Lending—It is recommended that the company provide an accurate description and properly report CUSIP numbers for each security on Schedule DL – Part 1.

Action—Compliance

2. Due and Unpaid and Resisted Claims—It is recommended that the due and unpaid and resisted claims be reported in their respective sections of Exhibit 8, Part 1, according to the NAIC Annual Statement Instructions - Life and Accident and Health.

Action—Compliance

3. Valuation Mortality Table—It is recommended that the company should change the valuation mortality table for individual term life contracts issued in 2009 and later to the 2001 CSO mortality table pursuant to s. Ins 2.81 (4) (b), Wis. Adm. Code.

Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Escheat Property

The escheat process followed by Humana Inc. in preparing the unclaimed property filings for Humana Insurance Company is not compliant with Wisconsin statutes. Section 177.17 (5), Wis. Stat., states, "Not more than 120 days before filing the report required by this section, the holder in possession of property presumed abandoned...under this chapter shall send written notice to the apparent owner at his or her last-known address informing him or her that the holder is in possession of property subject to this chapter...." The examination determined no such notification procedure is performed within the required timeframe. It was further noted that the company's escheat policy does not include commission and claim checks, in amounts less than \$100, in its attempt to contact the apparent owner at their last known address. This is not compliant with s. 177.17 (5) (c), Wis. Stat., which establishes \$50 as the minimum value of individual property items to be included in this process. It is recommended that the escheat process be amended to comply with the notification procedure required by s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its owner notification process in accordance with s. 177.17 (5) (c), Wis. Stat.

Report on Executive Compensation

The Report on Executive Compensation filed with Humana Insurance Company is not in compliance with s. 611.63 (4), Wis. Stat., which states "The amount of all direct and indirect remuneration for services, including retirement and other deferred compensation benefits and stock options, paid or accrued each year for the benefit of each director and each officer and member of executive management..." is required to be included in the report. A reconciliation of the amounts included in the Report on Executive Compensation filed with the 2015 annual statements for Humana Insurance Company, to the payroll data for selected executives provided

by the company, found that various categories of compensation were not reported. Categories noted are:

- Executive Financial Planning Compensation
- Incentive Stock Option Compensation

It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

VIII. CONCLUSION

Humana Insurance Company is the lead operating entity for Humana Inc., writing almost half of the organization's premiums. As indicated above, the company has reported favorable operating results for all the years under examination.

Humana Insurance Company is a wholly owned subsidiary of CareNetwork, Inc., which is a wholly owned subsidiary of Humana Inc. The company is licensed in the District of Columbia and in all state jurisdictions except New York. The company offers insurance products in two general business segments, the commercial segment and the government segment. The government segment includes Medicare Advantage and Medicare Part D (prescription drug). The commercial segment consists of employer group members and individuals enrolled in fully insured medical, administrative service only (ASO) and specialty products. The company ceded all of its retained life insurance business in 2014, and as a result started reporting on the NAIC Health Blank in 2014.

During the period under examination, the company's admitted assets increased 35%, premiums earned increased 43%, and surplus increased by 40%. The company's government segment has been the biggest source of growth for the company over the last five years. Increase in premiums is primarily a result of growth in Medicare products. HIC also experienced growth in its commercial business with the implementation of the ACA. The increase in admitted assets and surplus was a result of growth in investment income and overall underwriting profitability of the company.

The examination determined that the company was in compliance with all of the recommendations made by the previous examination. The current examination resulted in two recommendations. No adjustments were made to surplus as a result of the examination and there were no reclassifications. The amount of surplus reported by the company as of December 31, 2015, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 31 - Escheat Property—It is recommended that the escheat process be amended to comply with the notification procedure required by s. 177.17 (5), Wis. Stat., and that the company modify and implement its escheat policy to include property valued at \$50 or more in its owner notification process in accordance with s. 177.17 (5) (c), Wis. Stat.
2. Page 32 - Report on Executive Compensation—It is recommended that the company include all direct and indirect compensation in its annual Report on Executive Compensation in accordance with s. 611.63 (4), Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, representatives from the states of Arkansas, Florida, Illinois, Michigan, Ohio, Pennsylvania, Texas, Utah, and Washington participated in the examination. The following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, also participated in the examination:

Name	Title
Robert McLaughlin, CFE	Insurance Financial Examiner
Diana Havitz	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Thomas Houston, CFE	IT Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist/ACL Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge