

IN THE MATTER OF TIME INSURANCE)	
COMPANY'S REPORTED LOSSES FOR)	
THE 1997/1998 AND 1999/2000)	
CALCULATION PERIODS AND THE)	IHC ADMINISTRATIVE ORDER
PAYMENT OF NET PAID LOSSES BY THE)	No. 16-IHC-01
INDIVIDUAL HEALTH COVERAGE)	
PROGRAM FOR THE 1997/1998 AND)	
1999/2000 CALCULATION PERIODS)	

WHEREAS, the New Jersey Individual Health Coverage Program ("IHC") Board is authorized by the Individual Health Insurance Reform Act of 1992 ("IHC Act"), N.J.S.A. 17B:27A-2 et seq., and regulations promulgated thereunder, to administer the IHC Program, to assess members of the IHC Program on the basis of their proportionate share of program losses and administrative expenses, and to reimburse carriers for eligible losses; and

WHEREAS, the IHC Program was enacted to address a crisis in the availability of medical and hospital coverage for people not eligible to be insured under a group health insurance policy or Medicare; and

WHEREAS, to increase availability of individual health coverage, the IHC Act provided two incentives for carriers to offer individual health benefits plans; and

WHEREAS, one incentive under the IHC Act permitted a carrier that wrote individual health benefits plans to seek reimbursement of some of the losses the carrier incurred for its individual health benefits plans (N.J.S.A. 17B:27A-12a(1)(b)) through assessments on members of the IHC Program; and

WHEREAS, the second incentive under the IHC Act permitted a carrier that wrote individual health benefits plans in New Jersey to elect to become exempt from liability for loss assessments by enrolling an assigned number of individual lives (N.J.S.A. 17B:27A-12d); and

WHEREAS, the IHC Board promulgated regulations at N.J.A.C. 11:20 to implement the IHC Act pursuant to its authority at N.J.S.A. 17B:27A-11, and set forth standards for reporting losses at N.J.A.C. 11:20-8, including the Assessment Report for the collection of uniform information about the net paid losses asserted to have been incurred by IHC Program members for their individual market business (that is, unaudited net paid losses);¹ and

WHEREAS, N.J.S.A. 17B:27A-11 authorized the IHC Board to establish standards for determining whether reported unaudited net paid losses were appropriate for reimbursement; and

WHEREAS, to evaluate whether the reported losses for which a carrier is seeking reimbursement qualified as net paid losses, the IHC Board commissioned independent audits of the information supporting the reported losses pursuant to N.J.A.C. 11:20-8.8, and also required that carriers cooperate in the conduct of an audit in order to obtain reimbursement; and

WHEREAS, the contracted independent audit firm was charged with auditing the elements on the Assessment Report that comprised the net paid loss amount: (1) premium earned; (2) claims paid; and (3) net investment income (N.J.A.C. 11:20-8.8); and

WHEREAS, upon the conclusion of an independent loss audit, and based on the findings set forth in the independent loss audit report, the IHC Board may then determine whether it is necessary to adjust the reimbursable net paid losses set forth in the Assessment Report (N.J.A.C. 11:20-8.8); and

WHEREAS, N.J.A.C. 11:20-8.8(b) requires that carriers subject to an audit of reported losses share equally the cost of the audit with the IHC Board; and

¹ References to statutes, regulations and rules refer to the law as it existed with respect to the loss reimbursement mechanism relevant to the two-year calculation periods addressed by this order.

WHEREAS, Time Insurance Company ("Time") filed a 1997/1998 Assessment Report on April 22, 1999 and a 1999/2000 Assessment Report on March 9, 2001, as required by N.J.A.C. 11:20-8.2; and

WHEREAS, the IHC Board commissioned Deloitte & Touche ("D&T") to perform independent audits of the carriers that sought reimbursements for the 1997/1998 and/or 1999/2000 calculation periods, including Time; and

WHEREAS, Time and the Board have disagreed regarding the calculation of the net investment income, but the net investment income issue was not a barrier to completion of the net paid loss audits because Time revised its Assessment Reports without prejudice to the right to contest the calculation, and the independent auditor used the revised Assessment Reports to evaluate the net investment income factor for the net paid losses; and

WHEREAS, on June 6, 2016, D&T issued its Final Independent Auditor's Report regarding the Statement of Net Paid Losses – Statutory Basis (in the name of Fortis Insurance Company²) for Time's New Jersey Individual Business for the 1997/1998 and 1999/2000 calculation periods ("Auditor's Reports"); and

WHEREAS, on June 6, 2016, Time filed a management representation letter for each audit report with D&T signed by Michelle R. Pierce, Senior Vice President and Chief Counsel, and also on the same date, submitted to D&T an Audit Statement for each calculation period signed by Jennifer M. Kopps-Wagner, Executive Vice President and Chief Operating Officer; and

² Effective April 1, 1998, Time Insurance Company changed its name to Fortis Insurance Company; effective September 6, 2005, Fortis Insurance Company changed its name to Time Insurance Company. Throughout, reference to "Time" includes any other name by which the company may have been known during the years in question, as well as its affiliates that are also IHC Program members, unless specifically identified otherwise.

WHEREAS, D&T concluded that the total net paid loss for Time for the 1997/1998 calculation period equaled \$3,527,659, derived from multiplying 115% by the sum of premiums earned added to net investment income, less claims paid; and

WHEREAS, D&T concluded that the total net paid loss for Time for the 1999/2000 calculation period equaled \$1,454,203, using the same method of calculation; and

NOW THEREFORE, pursuant to the authority granted to the IHC Board by N.J.S.A. 17B:27A-2 et seq., N.J.A.C. 11:20-1 et seq., and all powers expressed or implied therein,

IT IS on this 10th day of November, 2016 ORDERED that:

1. Time's reimbursable losses shall be \$3,527,659 for the 1997/1998 two-year calculation period;
2. Time's reimbursable losses shall be \$1,454,203 for the 1999/2000 two-year calculation period;
3. Time's audited reimbursable losses shall be reduced by the following amounts: a) one-half of the total cost of the independent audit for each two-year calculation period in accordance with N.J.A.C. 11:20-8.8(b); and b) any assessment liability that Time may have for the 1997/1998 and 1999/2000 calculation periods in accordance with N.J.A.C. 11:20-2.17 [repealed];
4. The IHC Program shall perform a final reconciliation as expeditiously as possible for the 1997/1998 two-year calculation period to include collection of the amount of any reimbursable losses due to Time, and shall reimburse Time the full amount due to it following receipt by the IHC Program of all amounts due to the IHC Program from member carriers assessed in the final reconciliation;
5. The IHC Program shall perform a final reconciliation as expeditiously as possible for the 1999/2000 two-year calculation period to include collection of the amount of reimbursable losses

for Time, and shall reimburse Time the full amount due to it following receipt by the IHC Program of all amounts due to the IHC Program from member carriers assessed in the final reconciliation;

6. In the event that Time files an appeal and requests a hearing within 20 days of receipt of written notification of the IHC Board's final determination in accordance with N.J.A.C. 11:20-8.9, the IHC Board shall not reimburse Time any of the amount determined by this Administrative Order to be owed to Time, and may postpone issuing invoices in support of the final reconciliation for the 1997/1998 and 1999/2000 two-year calculation period until resolution of the appeal is reached, and is no longer appealable, or, if the IHC Board performs the final reconciliation for one or both two-year calculation periods, shall collect and deposit funds owed to Time in accordance with this Administrative Order in a segregated interest-bearing account until resolution of the matter is reached and it is no longer appealable.



Sandi Kelly, Chair
Individual Health Coverage Program Board



Date