

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



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March 13, 2013

Clerk of the Court
Ingham County Circuit Court
Mason Courthouse
341 S. Jefferson
Mason, MI 48854

Via U.S. First Class Mail

**Re: *Ken Ross, Commissioner of the Office of Financial and Insurance Regulation v
American Community Mutual Insurance Company***
Case No. 10-397-CR

Dear Clerk of the Court:

Enclosed for filing with the Ingham County Circuit Court is the **Deputy Rehabilitator's Third Report and Accounting dated March, 2013** relative to the above-captioned rehabilitation of American Community Mutual Insurance Company ("American Community").

The report and attached exhibits were prepared by Jim Gerber, Special Deputy Rehabilitator for American Community, and his staff. Mr. Gerber has given his approval and authorization for filing the report. I enclose one original, signed by Mr. Gerber on March 13, 2013, together with all exhibits. I also enclose one complete Judge's copy of the report and all exhibits for Judge Collette.

If you or Judge Collette have any questions regarding this filing, please do not hesitate to contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read "Christopher L. Kerr".

Christopher L. Kerr (P57131)
Assistant Attorney General
Corporate Oversight Division
(517) 373-1160

Enclosure

c James Gerber, Special Deputy Rehabilitator (via interdepartmental mail w/o encl.)

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

KEN ROSS, COMMISSIONER OF THE OFFICE
OF FINANCIAL AND INSURANCE
REGULATION,

Petitioner,

No. 10-397-CR

v

HON. WILLIAM E. COLLETTE

AMERICAN COMMUNITY MUTUAL
INSURANCE COMPANY,

[IN REHABILITATION]

Respondent.

DEPUTY REHABILITATOR'S THIRD REPORT AND ACCOUNTING
March, 2013

Pursuant to the Rehabilitation Order entered by the Circuit Court on April 8, 2010, the Deputy Rehabilitator hereby respectfully submits his third rehabilitation report and accounting on the Rehabilitation of American Community Mutual Insurance Company ("American Community").

SUMMARY

This report covers historical background and significant developments for the period of February 1, 2012 through January 31, 2013.

The main developments covered in this report are as follows:

- American Community's policy count has continued to decline significantly after entry of the Rehabilitation Order. As of January 31, 2012 American Community had 103 individual policyholders and 1 small group policy. As of January 31, 2013 American Community had no individual or group policyholders. In late October 2010 American Community filed HIPAA individual withdrawal notices in all states in which it was writing business and small group HIPAA withdrawals in every state with the exception of Michigan and Indiana. The individual

policyholders impacted by the HIPAA withdrawal were given the option of a final Golden Rule guaranteed issue offer. The vast majority of the policies were terminated in May, 2011. However due to Illinois HIPAA statutes American Community had Illinois individual policyholders through July 15, 2012 at which time any remaining Illinois policyholders were terminated in accordance with Illinois HIPAA statutes.

- In an effort to reduce administrative expenses, the Rehabilitator has reduced payroll expenses. When the rehabilitation order was entered American Community had 282 employees and a monthly payroll of \$1,229,000. As of January 31, 2012 American Community had 29 employees and a monthly payroll of \$288,000. The Rehabilitator has continued to make staffing adjustments based on the reduced number of policyholders. As a result American Community currently has 3 contracted employees and a monthly payroll of \$15,000.
- American Community has reduced its monthly total general expenses from \$2,129,000 per month in March 2010 to \$1,000,000 as of January 31, 2011 and to \$700,000 per month as of January 31, 2012. Current monthly operating expenses are \$125,000.
- As of January 31, 2012 American Community had an inventory of 45 unprocessed claims. Due to the reduction of policyholders as a result of the HIPAA withdraw in Illinois the American Community claims staff has reduced the inventory of unprocessed claims to a single claim as of January 31, 2013.
- On December 8, 2010 the Rehabilitator entered into a purchase agreement to sell American Community's home office building located at 39201 Seven Mile Road in Livonia to Agree Development, LLC for the sum of \$4,600,000. The Court approved this transaction on December 22, 2010. However, the purchaser declined to exercise their option to purchase the building. As a result, American Community's home office went back on the market in August, 2011. The Deputy Rehabilitator filed a petition with the Court to approve a new purchase agreement with Gary Tadian for the sum of \$4,300,000, which the Court approved on March 21, 2012. However that purchaser rescinded the purchase agreement on July 31, 2012. The Deputy Rehabilitator then signed a purchase agreement with Lormax Stern on August 17, 2012 for the sum of \$4,000,000. The Court approved this purchase agreement on September 19, 2012. As part of the purchase agreement the Deputy Rehabilitator supported Lormax Stern's request to have the property rezoned from office to commercial similar to other surrounding properties. Unfortunately in November 2012 the Livonia Planning Commission rejected the rezoning request in part due to an objection to the rezoning from Schoolcraft College. In December 2012 Lormax Stern informed the Deputy Rehabilitator that they were

withdrawing their purchase offer. The Deputy Rehabilitator reviewed various options including appealing the Livonia Planning Commission's denial of the rezoning request. After receipt of competing offers the Deputy Rehabilitator entered into a purchase agreement with Schoolcraft College on January 8, 2013 to sell the property to Schoolcraft for the amount of \$3,440,000. The Court approved the sale on January 23, 2013. The sale of the property to Schoolcraft closed on February 28, 2013.

- The Rehabilitation estate settled, with Court approval, four claim litigation matters for \$124,000. The four claims had potential exposure to the Rehabilitation estate exceeding \$288,756.
- During the year the Rehabilitator completed the process of implementing the transfer of data and closing down of 22 separate systems and terminating associated support and maintenance contracts. All 22 systems were closed and associated support and maintenance contracts terminated. All the information from the 22 systems was sent to Mindshift as the data hosting center for storage in August 2012. As a result the remaining IT staff was laid off effective August 31, 2012.

This report is divided into several sections. Those sections are as follows: Background, Individual Policies, Group Policies, Legal, Administrative and Financial.

BACKGROUND

American Community was incorporated on March 24, 1938 as Michigan Hospital Benefit Association. American Community adopted its current name in 1964. American Community was licensed to transact life, disability and legal expense insurance. American Community marketed individual and group managed care products, group major medical, short term medical, health savings account related health products, dental, vision, Medicare Supplement and weekly indemnity products. In addition, American Community offered group life, group vision and disability products.

American Community's products were marketed through individual agents. As of December 31, 2009, American Community had 26,070 agents of which 4,171 were Michigan agents. American Community was licensed in 42 states and the District of Columbia.

As of December 31, 2009 (the last calendar year prior to rehabilitation) American Community wrote \$4,139,266 of life premiums, \$9,004 in annuities and \$360,949,639 in individual and group health business for total direct premiums of \$365,097,910. The largest direct written premium amounts by state were: Michigan \$78,723,187 (21.6%), Ohio \$52,845,880 (14.5%), Arizona \$50,485,187 (13.8%), Indiana \$49,627,223 (13.6%), Missouri \$47,246,493 (12.9%) and Illinois \$42,888,576 (11.7%). As of December 31, 2009, American Community had 82,835 individual policies and 18,780 group certificates.

In the years leading up to this rehabilitation, American Community suffered large underwriting losses from its business. From 2005 to 2009, it had only one profitable underwriting year (2007). American Community had a net loss of \$(23,918,392) in 2008 and those losses increased to \$(46,052,615) in 2009. American Community's risk based capital had a significant decline from 2008 and 2009 and capital and surplus declined from \$74,506,058 at December 31, 2008 to \$21,101,431 as of December 31, 2009. As a result of these losses A.M. Best downgraded American Community from C+ (marginal) to a D (poor) on March 8, 2010.

Due to its significant financial decline, the State of Ohio had suspended American Community's ability to write new business effective January 4, 2010 and Nebraska did the same effective January 25, 2010. As a result of the downgrade by A.M. Best and operational losses, many insurance agents began to switch their insureds to other carriers. From December 31, 2009 to March 31, 2010, American Community lost 22,567 individual policies (a 27% decline) and 8,345 group policies (a 44% decline). American Community management began reviewing the possibility of a sale or merger of the company and/or blocks of business in mid-late 2009. In November, 2009 American Community's board of directors approved the hiring of Cain Brothers, an investment banking firm, to market the company to potentially interested parties. Unfortunately the company was not able to consummate a transaction.

On March 31, 2010 the American Community board of directors passed a resolution consenting to have the company placed into rehabilitation. On April 8, 2010 the Court ordered American Community to be placed into rehabilitation under the supervision of the Commissioner of the Office of Financial and Insurance Regulation (then Ken Ross, currently R. Kevin Clinton), who was named Rehabilitator while James Gerber and Michael Hogan were named Deputy Rehabilitators. Currently James Gerber is the only Deputy Rehabilitator.

INDIVIDUAL POLICIES

On April 9, 2010, the Deputy Rehabilitators gave written instructions to American Community agents that American Community would no longer accept any new individual or group policy applications. American Community continued to renew existing business.

Individual Medical

During April and May 2010 the Deputy Rehabilitators received 13 signed non-disclosure agreements from various parties with some level of interest in American Community's individual lines of business. Of the 13 parties expressing interest the Deputy Rehabilitators received three offers for the individual health business.

One offer was only for the American Community Michigan policyholders and offered \$100 to American Community for each policyholder who accepted an offer of coverage from that company.

Another company offered to assume the individual health business without compensation but required a lengthy period of due diligence which required American Community to continue to absorb significant losses on the individual business. Moreover, there was no guarantee that after the due diligence was completed the company would proceed with the transaction. Both of these offers provided guaranteed coverage to American Community policyholders but with waiting periods before coverage began.

The last of the three offers was from Golden Rule, a subsidiary of United Healthcare. Golden Rule was licensed in 38 states and the District of Columbia. Therefore Golden Rule was able to offer coverage to almost all of American Community's policyholders and was also rated A by A.M. Best. Golden Rule also indicated that they would offer American Community policyholders a guaranteed issue product without medical underwriting and without any waiting periods or exclusion for pre-existing conditions. The rates offered by Golden Rule to American Community policyholders would be at standard rates. Golden Rule would also offer American Community policyholders the option of applying for an underwritten policy in order to determine whether they qualified for a lower rate than the guaranteed issue policy. Golden Rule offered to compensate the Rehabilitation estate 7.5% of the annualized premium for all underwritten policies and a percentage of annual premium for all guaranteed issue policies if the annual loss ratio for the guaranteed issue policies was less than 85%.

The Deputy Rehabilitators and Golden Rule discussed several additional points. One was the type of products that Golden Rule would offer American Community policyholders. Golden Rule indicated they would offer two deductible policies both at \$2,500 per policy year, one for health savings account related policies and one for non-health savings account related policies. The \$2,500 deductible offered by Golden Rule would be equal to or less than 70% of current deductibles of American Community individual policyholders. The Deputy Rehabilitators discussed the possibility of Golden Rule giving American Community policyholders credit for amounts already paid towards their deductible. Golden Rule rejected doing this. The Deputy Rehabilitators also reviewed Golden Rule's provider network to determine the adequacy of Golden Rule's network compared to the network offered by American Community to evaluate the amount of potential disruption policyholders would face with their use of providers. In addition, the Deputy Rehabilitators requested Golden Rule do a simple rate comparison comparing its rates to those charged American Community policyholders. The parties also discussed that Golden Rule would be using a direct marketing approach in making the offer to American Community policyholders without any agent's commission.

As part of the proposed transaction the Deputy Rehabilitators required Golden Rule's parent, United Healthcare, to enter into a separate agreement whereby United Healthcare would make an offer of coverage to American Community's group medical policyholders.

Based on all these factors, the Deputy Rehabilitators recommended the Rehabilitator approve Golden Rule's offer as being in the best interests of American Community's

policyholders. The Rehabilitator concurred with the recommendation. A Transition Plan Agreement and HIPAA Business Associate Agreement covering the agreed upon points were prepared with an effective date of June 2, 2010 and executed by both parties. Under the terms of the Transition Plan Agreement Golden Rule's offer of guaranteed coverage would expire on August 15, 2010. The Court approved the Golden Rule offer to American Community policyholders on June 9, 2010. As agreed upon by the parties, the Rehabilitator did a press release regarding the Golden Rule offer on June 9, 2010 with a copy of the press release going to two Michigan agent trade associations. The Deputy Rehabilitators sent a letter to all American Community policyholders informing them that American Community was in rehabilitation, Golden Rule would be mailing them an offer of coverage and, if they decided to accept Golden Rule's offer, they would need to notify American Community to cancel their coverage. These letters were mailed out to all American Community policyholders between June 23, 2010 and June 25, 2010. Golden Rule began their mailings to American Community policyholders on June 28, 2010 and completed their mailings on July 23, 2010. The Deputy Rehabilitators responded to numerous inquiries of policyholders and agents regarding the Golden Rule offer.

At Golden Rule's request, the parties amended the Transition Plan Agreement on August 23, 2010 which extended Golden Rule's offer from August 15, 2010 to September 30, 2010 and allowed Golden Rule to do a second mailing to American Community policyholders that was completed August 30, 2010. Once Golden Rule's first and second mailings were completed 9,565 American Community policyholders had accepted Golden Rule's guaranteed issue policy and 233 had accepted underwritten policies with Golden Rule for a total of 9,798 policies. During the period of Golden Rule's offering (July 1-September 30, 2010) an additional 15,561 individual policyholders cancelled their American Community coverage.

As of August 31, 2010 American Community still had over 20,700 individual policyholders. The Deputy Rehabilitators began to explore various alternatives to reduce the size of American Community's individual and small group blocks of business while providing options for policyholders. Effective September 16, 2010, American Community suspended payment of commissions to agents on post-rehabilitation business. Commissions on post-rehabilitation renewal business continued to be calculated and accrued. The Deputy Rehabilitators also discussed an assumption reinsurance agreement of all remaining American Community business including group and individual with two other insurers but no acceptable agreement could be reached.

Due to the lack of other coverage options to offer policyholders, the Deputy Rehabilitators reluctantly recommended the Rehabilitator implement a HIPAA withdrawal for all of American Community's existing business where policyholder coverage would be cancelled as allowed by federal or state law. The Rehabilitator agreed with the recommendation. On October 19, 2010 American Community mailed out HIPAA withdrawal notices for individual and/or group business to the commissioner of insurance in Arizona, Illinois, Iowa, Missouri, Nebraska and Ohio and for individual business in Arkansas, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin. Courtesy notices were also sent to all other states. On October 21, 2010, American

Community mailed out HIPAA withdrawal notices for individual business only to Michigan and Indiana.

As part of the HIPAA withdrawal process, the Deputy Rehabilitators discussed with Golden Rule about doing a third and final offer of guaranteed issue coverage to American Community's individual policyholders. A second amendment to the Transition Plan Agreement effective October 21, 2010 was executed. Under the terms of the second amendment Golden Rule would do a third and final offer and mail the guarantee issue offer to all American Community individual policyholders with the exception of Illinois by December 31, 2010 with the offer expiring on January 31, 2011. On October 27, 2010 American Community sent HIPAA withdrawal notices to all 10,000 non-Illinois current individual policyholders informing them of the HIPAA withdrawal action, the upcoming Golden Rule guaranteed issue offering and the date their policy would expire (the earliest possible date was May 1, 2011). On December 15, 2010 Golden Rule mailed out its final guarantee issue offer to all non-Illinois American Community individual policyholders. An additional 501 non-Illinois American Community policyholders accepted Golden Rule's offer. Due to Illinois law, American Community sent letters notifying Illinois policyholders of the HIPAA withdrawal on January 12, 2011. Golden Rule sent out its final offer letter to Illinois policyholders on January 19, 2011 which expired on February 28, 2011. The Golden Rule Illinois only offer resulted in 37 policyholders accepting Golden Rule's offer. Due to Illinois HIPAA related law, the last Illinois policy terminated on July 15, 2012.

Under the terms of the Transition Plan Agreement, American Community was to receive a referral fee of 7.5% of the first year annualized premium under the first and second offering for each American Community policyholder who elected to purchase underwritten coverage from Golden Rule and if the policy was still in effect as of December 15, 2010. The calculation was to be done after January 31, 2011 and the referral fee paid to American Community by February 15, 2011. Golden Rule provided the calculation on February 4, 2011 showing 225 underwritten policies in effect as of December 15, 2010 with an annualized premium of \$707,044 and a referral fee of \$53,028.28. American Community received the \$53,028.28 on February 10, 2011.

Golden Rule may pay American Community a second type of referral fee for the guaranteed issue business. Under this referral fee, American Community may earn up to 5% of earned premium if the aggregate loss ratio is less than 75%, a fee of 85% minus the loss ratio divided by 2 of the earned premium if the aggregate loss ratio is between 75-85% and no fee if the aggregate loss ratio is 85% or more. In early December 2011 Golden Rule provided us with the loss ratio for the first two guaranteed issue offers. The loss ratio exceeded 100% and therefore no additional referral fee was payable. Golden Rule informed us they have retained 7,741 policyholders out of 9,565 American Community policyholders who accepted Golden Rule's first and second offers. The referral fee, if earned, for the third offering was due no later than May 20, 2012. Golden Rule provided us with loss ratio data showing the loss ratio exceeded 100% and no additional referral fee was payable to American Community as the result of the third offer. This concluded the Golden Rule transaction.

We sent out letters to all our remaining individual policyholders on March 7, 2011 reminding the policyholders of when their individual coverage would terminate under HIPAA and urging them to seek alternative coverage. As a result of the HIPAA withdrawal, 3,480 non-Illinois individual policyholders lost their medical coverage during May, 2011. The Illinois individual policyholders continued their coverage through July 15, 2012 when the last individual policy terminated.

As of January 31, 2013 American Community had no individual medical policyholders.

Rate Increases

The Deputy Rehabilitators explored the possibility of individual medical rate increases. However, it was determined that many states would probably not approve the rate increases sufficiently to allow the business to return to profitability on an underwriting basis. In addition, due to Federal Health Care Reform, some states had switched from a file and use basis to rate review and approval. American Community did file rate increases in its only file and use rating state, Missouri. American Community filed a 21% increase for its Flex product that was effective January 1, 2011. American Community also filed a 34% rate increase for Next Generation HSA and 34% rate increase for Medalist II that were both effective February 1, 2011.

Prior to rehabilitation, American Community had filed for individual medical rate increases for three products in Nebraska but the Nebraska Department of Insurance counter proposed with lower rates. American Community accepted the counter proposed rates. As a result, American Community individual policyholders with Triple Tier policies received a 23% rate increase; those with Next Generation HSA received a 19% increase and those with Medalist II policies received a 15% rate increase. All these increases were effective November 1, 2010.

Medicare Supplement

American Community received its first non-disclosure agreement from a company for the Medicare Supplement only business on April 30, 2010. On June 1, 2010 the company sent a non-binding letter of intent. The two companies exchanged due diligence information and reviewed draft agreements. The company terminated its interest in the Medicare Supplement business at the end of July, 2010.

After the company terminated its interest, the Deputy Rehabilitators instructed Cain Brothers to once again market this block for sale. On August 3, 2010 another company signed a non-disclosure agreement. On September 21, 2010, this company sent a non-binding letter of intent. The two companies shared due diligence information and reviewed numerous draft reinsurance agreements but were not able to reach an agreement. The Deputy Rehabilitator informed the company in early December 2010 that American Community was no longer interested in pursuing a transaction. The Deputy

Rehabilitators then requested Cain Brothers to once again research potential purchasers for this block of business.

The Deputy Rehabilitator received non-disclosure agreements from six other companies. After reviewing all offers, the Deputy Rehabilitator executed a letter of intent with Bankers Fidelity Life Insurance Company (“Bankers Fidelity”) on January 31, 2011. The letter of intent provided a purchase price of \$950,000 for the Medicare Supplement block. At the time of the signing of the letter of intent American Community had 697 Medicare Supplement policies in force. The original effective date of the transaction was January 1, 2011 with an effective date of March 31, 2011. However, when Bankers Fidelity began its due diligence, it became apparent that American Community had made some errors in its previous Medicare Supplement rate filings filed in March 2009. Due to the error in rate filings the parties mutually agreed to move the closing date from March 31, 2011 to June 30, 2011 with an effective date of July 1, 2011. American Community filed revised policy rates in Michigan, Arizona, Ohio, Illinois and Indiana. The revised policy rates were approved in all the states. The parties mutually agreed to reduce the purchase price from \$950,000 to \$900,000 to reflect the change of the effective date of the transaction from January 1, 2011 to July 1, 2011. The parties executed a reinsurance assumption contract which was filed with the Court and the Court approved the contract on August 3, 2011. As required by the reinsurance contract American Community transferred all its Medicare Supplement liabilities to Bankers Fidelity net of the \$900,000 purchase price. This resulted in a net settlement of \$152,288 paid by American Community to Bankers Fidelity. American Community continued to administer the business on behalf of Bankers Fidelity during the transition period and earned an administrative fee of \$64,142. Bankers Fidelity filed assumption certificates with Michigan, Arizona, Ohio, Illinois and Indiana and in November 2011 the assumption certificates were approved by all the states. On December 1, 2011 all of the 609 remaining American Community Medicare Supplement policyholders became Bankers Fidelity policyholders. As required by the reinsurance contract a “true up” of the June 30, 2011 claim and IBNR reserves was completed in mid-January 2012. As a result of the “true up” American Community paid Bankers Fidelity \$41,222. This completed the Bankers Fidelity transaction.

Life/Annuity Business

American Community had two separate reinsurance agreements reinsuring 100% of its liabilities for life and annuity policies it had written.

Under one of the reinsurance agreements, American Community reinsured 100% of its liability for traditional life and deferred annuities to Brooke Life effective January 1, 1997. Brooke Life then reinsured the entire block of business with Unified Life. American Community had a Policyholder Administration/Service Agreement with Unified Life. Shortly after the Rehabilitation Order, Unified Life contacted the Deputy Rehabilitators about doing an assumptive reinsurance agreement whereby American Community policies currently reinsured with Brooke Life would become policyholders of Unified Life via an assumptive reinsurance contract. As a result of negotiations among American Community, Brooke Life and Unified Life it was agreed that, effective October

1, 2010, Unified Life would replace Brooke Life as the reinsurer in the contract between Brooke Life and American Community. It was also agreed that Unified Life would issue assumption certificates to all American Community policyholders and that as of October 1, 2010 the Policyholder Administration/Service Agreement between Unified Life and American Community would be cancelled. The new agreements applied to 1,361 individual life insurance policies with reserves of \$4,326,496 as of September 30, 2010 and 244 annuity policies with reserves of \$1,194,013 as of September 30, 2010. Unified Life is rated B++ by A.M. Best and also is licensed in 49 states with the exception of New York. On December 2, 2010 the Court approved the transaction. On December 17, 2010 Unified Life filed their assumptive reinsurance certificate with the Office of Financial and Insurance Regulation for approval. On December 28, 2010, the Office of Financial and Insurance Regulation approved Unified Life's assumption reinsurance certificate and Unified Life has proceeded to file the assumptive reinsurance certificate in other states. The remaining states have also approved the assumptive reinsurance certificates. As a result, American Community's liability for these policies has been terminated.

American Community also had a reinsurance agreement with American Underwriters Life Insurance Company ("American Underwriters") effective July 1, 2003 whereby American Community ceded 100% of its liabilities for certain individual life and annuities to American Underwriters. Under the terms of the reinsurance agreement there was an experience rated refund that was paid by American Underwriters to American Community. When the experience refund amount reached zero, American Underwriters would use its best efforts to assume all of the business and issue assumptive reinsurance certificates. The experience refund amount reached zero on March 31, 2005. However, American Underwriters did not attempt to assume American Community's business per the reinsurance agreement. American Underwriters entered into a reinsurance contract with Lifeshield effective April 1, 2006. Under the terms of this reinsurance contract, American Underwriters reinsured 100% of life insurance policies it assumed from American Community with Lifeshield. As of November 10, 2010 American Underwriters assumed 72 annuities with reserves of \$1,712,948 and 3,694 life policies with reserves of \$4,330,548 under its reinsurance arrangement with American Community. The Deputy Rehabilitators requested that American Underwriters assume the entire block of business and issue assumptive reinsurance certificates to all the American Community policyholders currently reinsured under this arrangement. American Underwriters responded stating they are willing to assume the entire block with the exception of Michigan because they are not currently licensed in Michigan. Currently there are 11 Michigan annuity policyholders with reserves of \$203,301 as of November 30, 2010 and 904 Michigan life policyholders with reserves of \$1,071,584 as of June 30, 2010 reinsured by American Underwriters. The Deputy Rehabilitators requested that American Underwriters find a replacement company to assume the Michigan business. During 2011 American Underwriters explored a possible sale of all of its American Community reinsured business to another carrier. However the parties could not reach an agreement. Lifeshield applied for a Michigan license. However, the Office of Financial and Insurance Regulation would only approve a limited license in order to assume certain Michigan only policies that American Community had reinsured with American

Underwriters. Lifeshield received its limited license on September 1, 2011. Subsequently, Lifeshield received a full Michigan license on September 4, 2012. As a result all three parties have agreed to a number of reinsurance transactions.

American Underwriters will assume all American Community annuity business currently reinsured with American Community with the exception of Michigan annuities. This amounts to about \$1,721,422 of annuity policy liabilities. This transaction will be effective June 30, 2012. American Community and American Underwriters will terminate one administrative agreement and two reinsurance trust agreements related to the original 2003 reinsurance contract as part of this transaction.

Lifeshield will assume all American Community life insurance business currently reinsured by American Community with American Underwriters and retroceded to Lifeshield. In addition, Lifeshield will also assume 5 group life conversion policies and all Michigan annuity business currently reinsured by American Community with American Underwriters. Lifeshield will be assuming approximately \$3,917,572 of life and annuity policy liabilities as part of this transaction. The effective date of these transactions will be June 30, 2012. Lifeshield has also entered into amendments with 5 life reinsurers substituting Lifeshield for American Underwriters.

The Deputy Rehabilitator anticipates filing these transactions for Court approval by the end of March 2013.

Critical Care Policies

American Underwriters was the administrator of 30 American Community critical care policies. The critical care policies are guaranteed renewable and cover stroke, cancer and heart attacks. The 30 policyholders reside in Michigan, Ohio, Indiana, Missouri and Arizona. The Deputy Rehabilitator approached Lifeshield about assuming these policies as part of the proposed life insurance assumption transaction but Lifeshield declined due to deficient reserves and the small size of the policy block.

The Deputy Rehabilitator received an offer from Central United Life, an Arkansas domiciled life and health insurer to assume American Community's critical care policies. As a result of discussions, the two parties entered into a confidentiality agreement and signed a letter of intent on November 16, 2011. Additional discussions took place and American Community and Central United Life entered into an assumptive reinsurance contract dated December 7, 2011. Under the terms of the assumptive reinsurance contract American Community will pay Central United Life \$50,000 to assume the policies. Central United Life will not pay any type of commission on these policies either for past commissions or future commissions. American Community made settlement offers to all 22 critical care agents regarding any future commissions. American Community received signed releases from 19 of these agents. The American Community-Central United Life transaction was contingent on Central United Life receiving a Michigan license. The Court approved the reinsurance transaction on January 30, 2012. Central United Life was licensed in Michigan on February 9, 2012. Central United Life filed and received

approval for their policy assumption certificates in March 2012. As a result both parties agreed to an April 1, 2012 effective date and the transaction closed on that date. On September 10, 2012 the Court approved payment of \$4,292 in commissions to the 19 agents who signed settlement agreements and approved escheating commission amounts to 3 agents who did not sign agreements. This concluded the Central United Life matter.

Individual Policyholder Refunds

American Community processed and paid \$2,594 in individual policy refunds for the period of February 1, 2012 through January 31, 2013.

GROUP POLICIES

Group Vision, Group Dental, Disability Income and Group Life

American Community received four non-disclosure agreements from April 16, 2010 to April 21, 2010 related to interest in the group vision and dental blocks. American Community received three non-binding letters of intent between mid-April and early May 2010. After a careful review of factors including type of transaction, financial rating and state licensing issues, the Deputy Rehabilitators accepted Security Life's offer for the vision and dental blocks. Security Life was licensed in the appropriate states and had an A.M. Best rating of B++. The parties agreed on an assumptive reinsurance transaction and an agreement was finalized with an effective date of May 1, 2010. Under the reinsurance agreement, Security Life assumed 100% of the group vision and dental coverages. Security Life paid a ceding commission of 23% of the monthly group vision and dental premium until the American Community policyholders received assumptive reinsurance certificates. In addition, Security Life paid a profit-sharing commission of 2.5% of the monthly premium from May 1, 2010 through April 30, 2011. Under the terms of the original agreement, Security Life was to issue assumptive reinsurance certificates with an effective date of September 1, 2010. However, the effective date of the assumptive reinsurance certificate was amended to March 1, 2011 by mutual agreement. All administration functions were moved to Security Life on March 1, 2011. The Security Life group vision and dental reinsurance agreement was filed with the Court for approval and on May 21, 2010, the Court approved the agreement.

Shortly after the group dental and vision reinsurance contract was signed, Security Life expressed an interest in American Community's group life, accidental death and dismemberment (AD&D) and short term disability business. On May 27, 2010 a reinsurance agreement was signed between the parties for group life. On June 17, 2010, both parties executed an amendment to the group life reinsurance contract to include AD&D and group short term disability coverages. Under the terms of the contract, Security Life agreed to assume 100% of American Community's group life, AD&D and group short term disability coverages effective May 1, 2011. Under the terms of the contract, Security Life paid American Community a ceding commission of 23% of the monthly group life, AD&D and group short term disability premium until Security Life

issued assumptive reinsurance certificates. Security Life also paid 50% of the net profits to American Community on the reinsured policies from May 1, 2011 through April 30, 2012. The profit sharing calculation was done on a quarterly basis. Security Life was to issue assumptive reinsurance certificates on September 1, 2010. The assumption date was moved to March 1, 2011 by mutual agreement. There was an amendment to the agreement effective March 1, 2011 whereby American Community's disability policies in Illinois, Nebraska and Missouri were assumed by Security Life. All administrative functions were moved to Security Life on March 1, 2011. The Court approved the Group Life, Disability and AD&D reinsurance contract on June 30, 2010.

Subsequent to the Court's approval, Security Life filed an assumption certificate with the Office of Financial and Insurance Regulation which was approved July 13, 2010. Security Life then filed assumption certificates with other applicable states. Security Life also decided to offer disability coverage to Missouri, Illinois and Nebraska American Community policyholders and the necessary forms were approved in each of the three states.

From May 1, 2010 through April 30, 2011, Security Life paid an aggregate profit sharing commission to American Community on the vision and dental coverage in the amount of \$54,255. The profit sharing for vision and dental terminated April 30, 2011. From May 1, 2010 through April 30, 2012, Security Life paid an aggregate profit sharing commission to American Community on the group life, disability and AD&D of \$283,698. The profit sharing for group life, disability and AD&D terminated April 30, 2012. Security Life had two group life waiver of premium claims that it paid amounting to \$28,810. As part of the purchase agreement for the group life, disability and AD&D block of business the former American Community senior vice president and legal counsel had represented to Security Life that there were no such waiver of premium claims. American Community therefore agreed to reimburse Security Life \$28,810 for the waiver of premium claims, which was paid in June, 2012. All matters related to Security Life are now concluded.

Group Medical

The Deputy Rehabilitators received three offers from three companies related to American Community's small employer group medical coverages. One company wanted to offer replacement coverage to Michigan employer groups only. Another company wanted to offer replacement coverage to only Missouri, Ohio and Indiana employer groups. Another company offered to acquire the Ohio and Indiana and possibly Michigan employer group business, but the offer was not detailed enough to determine the specific method of acquisition. The Deputy Rehabilitator's preference was to have a company that could provide an offer of coverage to all existing American Community small group employers. During their negotiations with Golden Rule on the individual policyholder block, the Deputy Rehabilitators were able to reach an agreement with Golden Rule's parent, UnitedHealthCare Insurance Company, to make an offer of coverage to each of American Community's small group employers without compensation to American Community. A separate Small Group Transition Plan Agreement was entered into between American Community and UnitedHealthCare Insurance Company with an

effective date of June 25, 2010. Under the terms of the agreement, UnitedHealthCare sent a letter to each existing American Community small group employer inviting them to contact UnitedHealthCare for a quotation of their group medical coverage and go through the underwriting process. The letters were sent within 15 days of Court approval of the Small Group Transition Plan Agreement between the two parties. The Court approved the Small Group Transition Plan Agreement on July 14, 2010. UnitedHealthCare mailed out the offers on July 27, 2010. Because there was no compensation involved, American Community did not track the number of small employer groups that accepted UnitedHealthCare's offer of coverage.

The Deputy Rehabilitators also discussed an assumption reinsurance agreement of all remaining American Community business including group and individual with two other insurers but no satisfactory agreement could be reached.

US Health and Life had previously signed a non-disclosure agreement early in the rehabilitation process but did not make any formal offer for American Community blocks of business. On October 19, 2010 US Health and Life sent Cain Brothers a non-binding letter of intent expressing interest in American Community's Indiana and Michigan small employer group business. Negotiations began between the two parties and on November 19, 2010 both parties executed a Reinsurance and Assumption Agreement covering American Community's Indiana and Michigan small employer group business. The agreement was effective November 1, 2010. Under the terms of the agreement, American Community ceded 100% of its Indiana and Michigan small employer group business to US Health and Life. American Community received an administrative fee of \$18 per employee group certificate per month and an expense allowance of 11% of the premium prior to the full assumption of the policies by US Health and Life. American Community was also entitled to a profit-sharing commission if the medical loss ratio was less than 80% for the period of November 1, 2010 through October 31, 2012. The profit sharing calculation was required to be completed by December 31, 2012 and any profit sharing paid by January 15, 2013. The agreement was filed with the Court for approval and on December 2, 2010 the Court approved the transaction. The reinsurance contract was amended to allow American Community to process November and December 2010 Michigan and Indiana small group claims on behalf of US Health and Life in exchange for a per claim processing fee. In addition, the amendment allowed an allocation of pharmacy rebates that were received by American Community for the period of November 1, 2010 to April 30, 2011 back to US Health and Life on Michigan and Indiana small group business. US Health and Life's Indiana and Michigan assumption certificates were approved in April 2011. The full transition of the policies along with related administrative functions to US Health and Life occurred on May 1, 2011. On July 13, 2011 American Community provided US Health and Life with all approved policy language changes for Health Care reform and any outstanding compliance requests related to the small group business they assumed from American Community. US Health and Life provided the profit sharing calculation on December 29, 2012. The profit sharing calculation showed a loss ratio that exceeded 80% and therefore no profit sharing commission was due American Community under the terms of the contract. This concluded the US Health and Life transaction.

As of January 31, 2013 American Community had no remaining group policies.

Rate Increases

The Deputy Rehabilitators reviewed rate adequacy for the small group business. As a result, a number of actions were undertaken to increase small group business rates. Prior to rehabilitation, American Community had instituted a 7% trend increase effective January 1, 2010 for all Indiana and Michigan small group employer business. American Community instituted an additional 33% trend increase effective November 1, 2010. Effective October 1, 2010 American Community instituted small group rate increases in all states except Arizona. Rates were increased by 23.7% in Illinois, 20.2% in Indiana, 27.1% in Iowa, 23.1% in Michigan, 20.6% in Missouri, 20.6% in Nebraska and 24.1% in Ohio. Effective November 1, 2010 American Community instituted small group rate increases in Arizona. The amount of the increases in Arizona was 20.9%.

Group Policyholder Refunds

American Community paid no group policyholder refunds from February 1, 2012 through January 31, 2013.

LEGAL

American Community's legal department has three major activities: litigation, compliance and, when applicable, policyholder communications.

Litigation Activities

The April 8, 2010 Rehabilitation Order enjoined all parties from commencing or continuing to prosecute any legal actions against American Community. American Community's internal legal counsel was instructed to work with American Community's external attorneys to obtain stays where appropriate. At the time of the rehabilitation there were 13 outstanding litigation cases against American Community. Additional legal claims against the company were asserted following entry of the Rehabilitation Order.

Here is a brief summary of the cases/claims that were pending as of the date of the Rehabilitation Order:

Desjarlais vs. American Community (MI)

The Plaintiff alleged that American Community refused to refund premiums following the cancellation of the Plaintiff's insurance policy. This matter was settled for \$348.13. The Court approved the settlement on August 3, 2010.

Ekberg vs. American Community (NE)

The Plaintiff alleged that American Community wrongfully rescinded the Plaintiff's individual health insurance policy resulting in unpaid medical claims. This case was settled for \$10,000. The Court approved the settlement on October 14, 2010.

Elango vs. American Community (MI)

The Plaintiff alleged wrongful rescission of the Plaintiff's individual health policy. This case was stayed. American Community filed a motion for continued stay and/or dismissal without prejudice. The Court dismissed the case without prejudice because the Plaintiff failed to appear for a settlement conference as ordered by the court. The Plaintiff filed a motion to have the case reinstated; however, the Plaintiff did not appear for the hearing and the motion was denied.

Grooms vs. American Community (MI)

The Plaintiff alleged that American Community wrongfully rescinded his health insurance policy. American Community filed a Third Party Complaint against the Plaintiff's employer. This case was settled for \$3,500. The Court approved the settlement on October 14, 2010.

Hibbard vs. American Community (OK)

The Plaintiff in this matter had medical claims that were investigated and ultimately paid by American Community. However, the Plaintiff asserted that American Community's delay in paying the claims was done in bad faith. The case was settled for \$15,000 and the Court approved the settlement on October 27, 2011.

Kuk vs. American Community (OH)

Plaintiff sued American Community for claims that were denied due to the Plaintiff's individual health policy being rescinded. This matter had been stayed indefinitely by the court. After making numerous settlement offers, the Rehabilitator made a motion to re-open the case for the purpose of dismissal that was filed on January 23, 2012. The Plaintiff never responded. The Ohio Court granted lifting the stay and dismissed the case with costs against the Plaintiff on February 17, 2012. This case is now closed.

Martyn vs. American Community (IN)

Plaintiff sued American Community and the agent that sold him the policy claiming his policy lapsed due to the negligence of American Community and the agent and as a result the Plaintiff incurred medical bills after the policy lapsed. The parties reached an agreement to settle this matter for \$2,000. The Court approved the settlement on May 8, 2012.

Perreault vs. American Community (AZ)

The Plaintiff filed a complaint alleging breach of contract and bad faith against American Community and professional negligence against the agent that sold the policy. This matter was settled for \$15,000. The Court approved the settlement on October 14, 2010.

Ponchot vs. American Community (OH)

In this case American Community was named as third party defendant. Kettering Medical Center sued the Ponchots for medical services provided but not paid. The Ponchots sued American Community alleging breach of contract and bad faith as American Community denied the Ponchots' claims due to a pre-existing medical condition. The Ohio trial court denied American Community's request for a continued stay of proceedings. American Community appealed the trial court's decision. The Ohio Court of Appeals denied American Community's appeal due to the trial court's decision not being a final decision. The parties entered into settlement discussions and a settlement was reached whereby American Community agreed to pay Ponchot the sum of \$32,000. The Court approved this settlement on April 21, 2011.

Robertson vs. Travelers Indemnity vs. American Community (MI)

Plaintiff Robertson was in a motor vehicle accident and sued Travelers Indemnity as the auto insurance carrier for medical bills and American Community for payment of benefits under an individual insurance policy. American Community's individual policy excludes claims for treatment arising out of the ownership, operation, maintenance or use of a motor vehicle. The court hearing the matter granted American Community's motion for summary disposition on all claims against American Community. American Community remained involved in the case as it has a cross claim against Travelers Indemnity and was seeking to recover approximately \$373,474 in claims paid by American Community related to the accident. The case went to mediation and American Community's cross claim was awarded \$100,000 which American Community accepted. However Travelers rejected the award. As a result of discovery in the ongoing case between the Plaintiff and Travelers, the entire case was dismissed on January 17, 2012. Based on this dismissal and the facts of the case, the Deputy Rehabilitator determined that pursuing the cross claim against Travelers would be costly and difficult. This matter is now closed.

Skola vs. American Community (MO)

The Plaintiff alleged that American Community committed breach of contract, vexatious refusal to pay and defamation. The case involved the denial of the Plaintiff's claims by American Community for injuries sustained from a pipe bomb the Plaintiff allegedly created and exploded. American Community denied the Plaintiff's claims due to the fact that the Plaintiff's conduct constituted a felony. American Community filed a motion for continued stay of the proceedings. The court dismissed the case without prejudice and without costs. After the court's dismissal the parties entered into settlement negotiations.

As a result this matter was settled for \$25,000. The Court approved the settlement on August 24, 2011.

Wolff vs. American Community (IL)

The Plaintiff's complaint alleged breach of contract and vexatious refusal to pay. The Plaintiff's claims were denied because American Community rescinded the policy based on Plaintiff's failure to disclose his involvement in organized ATV racing in his policy application. This case was settled for \$10,000. The Court approved the settlement on August 3, 2010.

Macomb Orthopedic Surgeons & Mendelson Orthopedics P.C. (Michael Caplan) vs. American Community (MI)

This case involved claims for breach of contract and breach of fiduciary duty related to American Community's rescission of Michael Caplan's medical insurance policy. This matter was settled for \$2,000. The Court approved the settlement on August 3, 2010.

Here is a brief summary of the cases/claims that were initiated subsequent to the Rehabilitation Order:

Adams vs. American Community (NE)

The Plaintiff alleged claims against American Community for breach of contract and bad faith based upon American Community's rescission of an individual health policy. This matter was settled for \$16,750. The Court approved this settlement on October 14, 2010.

Yarbrough vs. American Community (AZ)

The Plaintiff's complaint alleged breach of contract and bad faith arising from American Community's failure to waive the Plaintiff's policy deductible related to payment of medical bills associated with an accidental injury. This matter was settled for \$1,529.66. The Court approved this settlement on October 14, 2010.

Charles & Diane Bellman vs. American Community et al. (OH)

The Plaintiffs in this case alleged claims for breach of contract, bad faith and breach of fiduciary duty due to American Community's rescission of Diane Bellman's health insurance policy. In addition Plaintiffs requested a declaratory judgment declaring the rights and obligations of the parties and reinstatement of the policy. This matter was settled with American Community agreeing to pay the Plaintiffs \$7,000.00 and the co-defendants agreeing to pay \$45,000. The Court approved the settlement on October 29, 2010.

Dunn vs. American Community et al. (AZ)

The Plaintiff alleged claims against American Community for breach of the duty of good faith and breach of contract related to a policy rescission of a short-term medical expense policy. American Community settled this case for \$45,000. The Court approved this settlement on October 29, 2010.

Rustan Green, State of Arizona Docket 10C-150-INS

This was an action brought in front of the Arizona Insurance Department. Mr. Green alleged American Community wrongfully denied medical bills related to a surgery. Mr. Green appealed the denial of the claims to the Arizona Insurance Department. Mr. Green agreed to accept \$3,500 in full settlement of his claims and dismiss his case and release American Community in full. The Court approved this settlement on December 14, 2010.

Catherine Izydorski vs. American Community (IN)

The Plaintiff alleged that American Community improperly denied the Plaintiff's medical claims because American Community determined the treatments to be "not medically necessary." This claim was settled for \$40,000. The Court approved the settlement on January 21, 2011.

Andy & Dana Jones vs. American Community & Roger Overby (MO)

The Plaintiffs alleged claims for breach of contract and vexatious denial of an insurance claim due to American Community denying payment of certain medical benefits. The complaint also alleged misrepresentation by the agent, Roger Overby. This case was settled by American Community for \$5,000. The Court approved this settlement on February 22, 2011.

In the matter of Barbara Veneklasen vs. American Community (MI)

This matter was a proposed complaint alleging that American Community improperly rescinded Ms. Veneklasen's medical policy causing unpaid medical claims and seeking reinstatement of her policy. American Community agreed to pay \$30,000 to Ms. Veneklasen as well as refund her insurance premium of \$1,905.33. The Court approved this settlement on February 22, 2011.

Kenneth Stewart vs. American Community (AR)

The Plaintiff's complaint alleged claims against American Community for breach of contract and penalty damages. The lawsuit arose out of American Community's rescission of the Plaintiff's insurance policy which caused the Plaintiff to incur unpaid medical bills. American Community filed a motion to stay these proceedings and the court approved the stay on January 24, 2011. The parties were able to come to an

agreement on a settlement amount of \$5,000. The Court approved the settlement on May 26, 2011.

In the matter of Kenneth Thoene (NE)

The Plaintiff alleged that American Community acted wrongfully when it rescinded his policy. As a result of settlement discussions the parties agreed to American Community's settlement payment of \$6,500. The Court approved this settlement on March 9, 2012.

Burch vs. American Community (OH)

The Plaintiff alleged claims against American Community for breach of contract, bad faith, vicarious liability and promissory estoppel. American Community had rescinded the Plaintiff's insurance policy and as a result of the rescission refused to pay the Plaintiff's medical claims. The parties agreed to settle the matter for \$4,800. The Court approved the settlement agreement on April 21, 2011.

Schmitt vs. American Community (OK)

The Plaintiff alleged breach of contract and bad faith against American Community and also alleged misrepresentation against the agent in this matter. American Community paid certain bills on behalf of Mr. Schmitt under an Administrative Exception Agreement on April 7, 2010 and as part of that agreement Mr. Schmitt agreed to cancel his coverage with American Community. The parties agreed to settle the matter for \$10,000. The Court approved this settlement on June 28, 2011.

In the matter of Bronson Methodist Hospital/Carlee (MI)

Mr. Carlee had a short term medical policy issued by American Community. American Community rescinded Mr. Carlee's insurance policy based upon material misrepresentations made in his policy application. After receiving certain medical treatment, Mr. Carlee passed away and his estate assigned his policy rights to Bronson Methodist Hospital. Bronson Methodist Hospital and their claims were denied by American Community. Bronson Methodist Hospital sought to lift the automatic rehabilitation stay and try the case. American Community agreed to pay \$63,000 to Bronson Methodist Hospital and \$1,143 to the Carlee estate in full settlement of this matter. The Court approved the settlement agreement on August 27, 2011.

In the matter of Leon Genzlinger (IL)

Mr. Genzlinger had an insurance policy with American Community that was rescinded in 2009. He filed a grievance with American Community regarding the policy rescission which was denied. Discussions between the parties followed and American Community offered Mr. Genzlinger an administrative exception offering to cover his existing claims and cancel his policy. The offer was extended until January 20, 2010. Mr. Genzlinger rejected the offer and on May 11, 2010 the offer was withdrawn and the policy remained

rescinded. The parties agreed to discuss settlement in this matter and reached a settlement agreement for the amount of \$11,500. The Court approved the settlement on August 24, 2011.

American Community vs. Health Plus America (MI)

Health Plus America is an insurance agency in Missouri. American Community loaned Health Plus America \$36,000 under a loan agreement. Health Plus America defaulted under the terms of the loan agreement and American Community filed a complaint seeking repayment of the entire \$36,000 with the Court. This matter was settled in March, 2011. Under the terms of the settlement, Health Plus America agreed to pay American Community \$18,000 in full satisfaction of the loan agreement.

In the matter of Donald Gillies (MI)

William Beaumont Hospital sued Mr. Gillies for non-payment of medical bills. Mr. Gillies then filed suit against American Community for breach of contract based on the rescission of his policy and non-payment of his claims. American Community reached a settlement with Mr. Gillies in this matter and agreed to pay him \$2,500. The Court approved the settlement agreement on January 4, 2012.

In the matter of Sarah Kenney (MI)

American Community rescinded Ms. Kenney's medical policy based upon material misrepresentations made in her policy application and as a result rejected Ms. Kenney's medical bills for payment. Ms. Kenney exhausted her internal appeals of the rescission of her policy. Her attorney filed suit in 90th District Court in Petoskey, MI. After being advised that American Community was in rehabilitation and there was stay in place the case was dismissed without prejudice in March, 2011. The parties had settlement discussions and agreed to settle Ms. Kenney's claims against American Community for \$1,500. The Court approved the settlement on April 9, 2012.

In the matter of Adina Mason (AZ)

The policyholder purchased the policy in 2009. American Community sent a number of questionnaires regarding prior health and held various claims in suspense pending responses. American Community had settlement discussions with the Mason's legal counsel, as a result of which American Community agreed to pay \$110,000 to settle this matter. The Court approved the settlement on May 8, 2012.

Ban Matti v. American Community(MI)

This lawsuit was filed in Wayne County. The Plaintiff alleged that American Community wrongfully denied payment of certain medical bills. The parties agreed to settle this matter for the sum of \$6,000. The Court approved the settlement on December 4, 2012.

Tibble v. American Community(MI)

In 2009 American Community issued an individual health policy to Jeffery Ernsberger. On the day prior to the issuance of the policy, Mr. Ernsberger was injured in a motor cross accident. American Community denied coverage for the claims due to material misrepresentations in the application and because the injuries occurred prior to the effective date of the policy. Due to the misrepresentation in the application, American Community rescinded the policy. Mr. Ernsberger was unable to pay his medical bills and declared bankruptcy. Mr. Tibble was appointed as bankruptcy trustee and brought an action against American Community for breach of contract. Mr. Tibble also brought an action against the insurance agent and agency that sold the American Community policy to Mr. Ernsberger. American Community filed a motion for summary disposition and on November 28, 2012 the Court granted American Community's motion and dismissed the case. Tibble then filed a motion for reconsideration which was denied by the Court on January 3, 2013. Mr. Tibble filed a claim of appeal with the Michigan Court of Appeals on January 11, 2013. American Community is contesting the appeal, which remains ongoing.

In the matter of Brokers Insurance/Midland State Bank (MO)

A dispute between Brokers Insurance, an insurance agency, and Midland States Bank arose over the \$9,155.78 in suspended and held commissions that American Community owed Brokers. Midland States Bank claimed a security interest in the commissions as part of an alleged default on a loan to Brokers and Brokers Insurance denied that Midland States had a security interest. On March 9, 2012 legal counsel for the Rehabilitator filed a petition setting forth a briefing schedule for both parties to submit to the Court in order to determine which party should receive the \$9,155.78. The Court approved the briefing schedule on March 9, 2012. Brokers Insurance and Midland States Bank entered into discussions to resolve the matter and came to an agreement to split the \$9,155.78 on a 50/50 basis and releasing the Rehabilitator from any future obligation in this matter after payment to both parties. The Court approved the agreement on April 9, 2012.

In the matter of former American Community officers (MI)

On January 18, 2012, January 25, 2012 January 26, 2012 and February 17, 2012 the Deputy Rehabilitator received written demands from a law firm representing six former American Community officers regarding potential claims under employment contracts entered into prior to the rehabilitation. On February 7, 2012 the Rehabilitator and Deputy Rehabilitator through legal counsel advised the former officers that it was the Rehabilitator's position under MCL 500.8137(4) that payment of their claims under a pre-rehabilitation employment contract was prohibited and their claims were denied. On April 10, 2012 the former officers filed a petition with the Court requesting the Court to lift the stay against litigation thereby allowing the former officers to file and litigate their claims. The Court issued an order on April 11, 2012 lifting the stay and permitting the former officers to litigate their claims. The Rehabilitator and former offices stipulated to a set of procedures that included allowing American Community's surplus note holders to

participate in the litigation and establishing a briefing scheduling order and a hearing date. The Court approved the stipulation and the procedures on May 8, 2012. The Rehabilitator's legal counsel and legal counsel for the American Community surplus note holders filed briefs with the Court in June 2012. The legal counsel for the former officers filed response briefs in July 2012. The Rehabilitator's legal counsel and surplus note holder counsel filed reply briefs in August 2012. After a hearing on August 15, 2012 the Court issued an Opinion and Order on August 24, 2012 denying the former officer claims. The Court made the August 24, 2012 Opinion and Order a final order on September 10, 2012. On September 19, 2012 the former officer legal counsel filed a claim of appeal with the Michigan Court of Appeals. On December 27, 2012 counsel for the former officers filed their appeal brief. The Rehabilitator's and surplus note holders' legal counsel filed their appeal briefs in late February, 2013. The appeal remains ongoing.

Compliance Activities

Here is a brief summary of compliance related activities:

State Licenses

Shortly after the rehabilitation order was issued, the Deputy Rehabilitators received numerous inquiries from other state insurance departments regarding the order. The following is a listing of states that suspended American Community's certificate of authority/licenses:

<u>State</u>	<u>Effective Date of Suspension</u>
Alaska	April 13, 2010
Arkansas	April 14, 2010
Delaware	April 8, 2010
Idaho	April 14, 2010
Illinois	May 26, 2010
Indiana	April 9, 2010
Iowa	February 23, 2012
Kentucky	April 20, 2010
Louisiana	June 1, 2010
Missouri	May 27, 2010
Maine	November 23, 2010
Nebraska	January 26, 2010
Nevada	May 26, 2010
North Dakota	May 24, 2010
Ohio	December 23, 2009
Oklahoma	May 7, 2010
Oregon	May 24, 2010
Tennessee	May 24, 2011
Virginia	June 7, 2010
West Virginia	June 10, 2010

Wisconsin
Wyoming

September 20, 2010
December 7, 2010

Each of these suspensions prohibited American Community from writing any new business, but allowed American Community to renew existing business. American Community surrendered its Massachusetts certificate of authority on May 25, 2010. Wyoming took action to revoke American Community's certificate of authority but agreed to extend American Community's certificate of authority to December 7, 2012. Wyoming revoked American Community's license on December 8, 2012. The State of Washington sent a notice to revoke American Community's certificate of authority in December, 2012. A hearing was held on the Washington revocation action on February 5, 2013, after which the parties stipulated to hold in abeyance the revocation of American Community's Washington certificate of authority until December 31, 2013. On February 1, 2013 the State of Virginia sent a notice to revoke American Community's certificate of authority. American Community has requested a hearing on the Virginia revocation matter.

Illinois Market Conduct Examination

Illinois had conducted a market conduct examination of American Community for the period of January 1, 2007 through June 30, 2009 and sent a final market conduct examination report and a proposed stipulation and consent order on September 1, 2010. As part of the proposed stipulation and consent order American Community was fined \$100,000. The Deputy Rehabilitators objected to the payment of the \$100,000 fine and certain compliance requirements. On October 26, 2010 the Illinois Department sent revised stipulation and consent orders which required American Community to comply with certain compliance requirements only if American Community's Illinois certificate of authority is fully reinstated in the future. American Community will pay the \$100,000 market conduct fine only if American Community emerges from rehabilitation. American Community executed the revised stipulation and consent orders.

Health Care Reform Act

Certain provisions of the Patient Protection and Affordability Care Act (referred to hereafter as "Health Care Reform Act") became effective on or about September 23, 2010. The major provisions that became effective on or about that date are: Extending Coverage for Young Adults, Prohibiting Denial of Coverage for Children with Pre-Existing Conditions, Eliminating Lifetime Limits on Insurance Coverage, Regulating Annual Limits on Insurance Coverage, Prohibiting Insurance Companies from Rescinding Coverage, Providing Free Preventive Care and Coverage of Emergency Services. American Community modified policies and procedures to comply with the requirements for rescinding policies. American Community was already in compliance with the requirements to provide coverage of emergency services. For the remaining major provisions notices of these changes were sent to policyholders, policy changes were filed with the appropriate state insurance departments and claims systems modifications to pay claims in compliance with the Health Care Reform Act were

completed. American Community received approval of all the policy changes by all the state insurance departments. The Health Care Reform Act also required change in American Community's grievance procedures and these changes were made. American Community did request an exemption under the Health Care Reform Act requirement related to annual limits on insurance coverage for 56 "Coverage on Demand" policies. The company received approval for the exemption from the Centers for Medicare and Medicaid Services in February 2011 for the policy year beginning September 23, 2011 and ending September 23, 2012. Since all of American Community's Coverage on Demand policies were terminated on May 1, 2011 we will not be requesting a further exemption. On January 1, 2011 the Health Care Reform Act set minimum loss ratios for American Community's individual and small group medical policies. The minimum loss ratio is 80%. If the loss ratio is less than 80% for each block a rebate is owed to the group or individual policyholder. We researched whether American Community has failed the minimum lives test in each of the states where we wrote business in 2011 and also on an aggregate basis and is therefore exempt from the rebate requirement. After consulting with our actuary, Lewis and Ellis, we were advised that we did not meet the 1,000 covered lives on an aggregate basis and to seek an exemption from the Center for Consumer Information & Insurance Oversight (CCIIO). In April, 2012 American Community requested an exemption seeking waivers for compliance due to failure to meet the 1,000 covered lives requirement. On May 3, 2012 CCIIO provided American Community with an administrative guideline with five specific criteria in order to be exempt from filing the medical loss ratio report. CMS agreed that American Community had less than 1,000 covered lives nationwide and therefore was exempt from the medical loss ratio requirement for 2011.

HIPAA Withdrawal

As mentioned in the "Individual Medical Policy" section earlier in this report, American Community was not successful in finding an insurer to assume the remaining blocks of insurance. As a result, in early October, 2010, a recommendation was made for American Community to exit the insurance business through a HIPAA withdrawal where it would cancel policies as permitted by federal and state law. On October 19, 2010 American Community mailed out HIPAA withdrawal notices for individual and/or group business to the commissioner of insurance in: Arizona, Iowa, Illinois, Missouri, Nebraska and Ohio and for individual business in Arkansas, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin. Courtesy notices were also sent to the remaining states. On October 21, 2010, American Community mailed out HIPAA withdrawal notices for individual business only to Michigan and Indiana.

On October 27, 2010 American Community sent HIPAA withdrawal notices to all 10,000 non-Illinois current individual policyholders informing them of the HIPAA withdrawal action, the upcoming Golden Rule guaranteed issue offering and the date their policy would expire which for a majority of policyholders was May 1, 2011 through May 28, 2011. Non-Illinois small group policyholders were notified on the same day but did not receive a Golden Rule offer. American Community sent letters to non-Illinois individual policyholders on March 7, 2011 and non-Illinois group policyholders on March 9, 2011

reminding them of when their coverage would terminate and encouraging them to seek replacement insurance. Due to Illinois law, American Community sent letters notifying Illinois policyholders of the HIPAA withdrawal on January 12, 2011. American Community sent out termination reminder letters to all Illinois policyholders on June 7, 2011 advising them when their coverage would terminate and encouraging them to seek replacement coverage. American Community received two follow up inquiries from the Illinois and Ohio Insurance Departments and filed additional documents regarding the HIPAA withdrawal per their request.

Small Group Rates

Prior to the rehabilitation, American Community filed small group rate increases in all states that became effective January 1, 2010 through March 31, 2010. American Community continued to lose money on the small group line of business. It was recommended to the Deputy Rehabilitators that another small group rate increase be implemented. The recommended rate increases for small group in seven states were implemented in October and November 2010. However, the October and November 2010 rate increases exceeded the maximum rate increases small groups can receive in one year for claim experience. The October and November 2010 rate increases should have pro-rated the increase for claim experience up to the maximum amount. These rate issues were addressed in our small group actuarial certifications filed with each state on an annual basis. The due dates are March 1 for Indiana, Iowa, Michigan and Ohio; March 15 for Missouri and Nebraska; April 1 for Arizona; and May 15 for Illinois. Due to the HIPAA withdrawal and the small amount of remaining group business, American Community has requested exemptions from filing the small group certifications for 2010 in all states except Indiana and Michigan. We have received exemptions from Arizona, Illinois, Iowa, Missouri, Nebraska and Ohio. We filed our small group certification with the State of Indiana in March 2011. We filed the small group certification with the State of Michigan in April, 2011. The Michigan certification was approved by the Office of Financial and Insurance Regulation and all small group overcharges were to be credited to Michigan small groups on renewal. Because this business was assumed by US Health and Life as of May 1, 2011 these findings were communicated to US Health and Life with the understanding they would credit the overcharges to the groups as they renewed with US Health and Life.

Medicare Supplement Policies

As part of its due diligence of the Medicare Supplement block of business, Bankers Fidelity raised an issue related to the Medicare Supplement rate filings. American Community's consulting actuary who had prepared the actuarial memorandum in previous years that had accompanied the Medicare Supplement rate filings had several inaccuracies. There were mathematical errors in several of the rate tables. We engaged Lewis and Ellis to assist us in reviewing the Medicare Supplement rates in Michigan, Indiana, Illinois, Ohio and Arizona. Based on Lewis and Ellis' review American Community re-filed its rates requesting a 0% rate increase for Medicare Standard and an 8% increase for Medicare Pre-Standards. American Community filed revised rate

increases in April 2011 via SERFF with Michigan, Indiana, Illinois, Ohio and Arizona. Michigan, Illinois, Ohio and Arizona approved the revised rates with an effective date of July 1, 2011. Indiana approved the revised rates with an effective date of August 1, 2011.

Regulatory Filings

On April 13, 2011 the Deputy Rehabilitator requested the Commissioner of the Office of Financial and Insurance Regulation to provide a waiver exempting American Community from preparing or filing any future regulatory quarterly or annual financial statements. On April 14, 2011, the Commissioner approved American Community's request. American Community is required to prepare monthly financial statements in accordance with the Office of Financial and Insurance Regulation's Receivership policies.

On October 6, 2010 American Community requested the Commissioner of the Office of Financial and Insurance Regulation to exempt American Community from obtaining an audited financial report for 2010. The Commissioner approved the exemption on October 11, 2010. On December 1, 2011 American Community requested the Commissioner to exempt American Community from obtaining an audited financial report for 2011 and future periods. The Commissioner approved this request on December 16, 2011.

American Community made three escheats filings during the period covered in this report. American Community paid \$33,724.06 in May 2011 as part of an escheats filing with 17 separate states. In July, 2011, American Community made a State of Michigan escheats filing and paid \$50,622.04. American Community filed negative (-0-) escheats reports with several states in November, 2011. In June, 2012 American Community filed 17 state escheats reports including Michigan and escheated \$389,915. In September, 2012 American Community filed an escheats report with the State of Indiana and escheated \$141.

In May, 2011 American Community requested an exemption in five states from filing a Market Conduct Annual Statement (MCAS). American Community was granted an exemption from all five states.

Record Retention

American Community conducted an inventory of all electronic, microfilm and hard copy data records. The policyholder data records consist of over 491,000 policyholder records over a seven year period. The data has been housed in 22 separate administrative systems each with its own support and maintenance related contracts. American Community's record retention project centralized these records in a secure data hosting environment allowing the termination of the 22 separate administrative systems and the associated contracts. American Community began the process by deleting outdated share drive information. American Community then sent a RFP (request for proposal) to six data hosting sites requesting quotes to house American Community's records for a seven year period. In June, 2011 American Community received three proposals. After reviewing the responses, two vendors were selected for on site inspection. As a result of the site

inspection, American Community chose Mindshift as the data hosting site. The Court approved American Community's contract with Mindshift on December 14, 2011.

Starting in January 2012 American Community began taking data off each of the 22 individual systems and moving it to a data holding area where the data was reviewed before being transferred to Mindshift for final storage and retrieval. During this period the claims process was converted to a manual paper process. There were other data retention issues for items that could not be converted to data. For example, American Community signed a contract to store and retrieve microfilm with Graphic Sciences for those records on microfilm. This contract runs for seven years. American Community completed converting voicemail records for electronic storage. As data was transferred from the administrative systems to the holding area American Community terminated associated support services and software as well as computer staff. American Community was able to negotiate early terminations of two major software contracts. The first contract, Sungard, was set to terminate in 2014 and had a contractual liability of \$304,000. American Community was able to settle this contract for \$200,000 in exchange for an early termination date of June 30, 2012. The second contract was for McKesson claims payment software and this contract expired in June, 2013 and had contractual liabilities of \$423,000. American Community was able to settle this contract for \$211,500 and a termination date of June 30, 2012. American Community was able to terminate its outside mainframe data center contract as of June 30, 2012. The cost savings from the termination were \$150,000 per month vs. \$6,000 per month for Mindshift's data hosting services. The data transfer project was completed on August 8, 2012 when the last data was transferred to Mindshift.

Mindshift only accepted a limited amount of liability in case of a data breach. American Community purchased its own data breach liability policy with \$1,000,000 per occurrence and \$1,000,000 aggregate limits per policy year.

The total cost of the data retention and retrieval for the expected seven years of storage is \$1,000,000 including insurance coverage.

ADMINISTRATIVE

Claims

As of March 31, 2010 American Community had an unpaid claims inventory of 32,593. During the course of the rehabilitation there has been a steady reduction in the unpaid claims inventory as business had been cancelled or assumed by other carriers. As a result, American Community had an unpaid claims inventory of one claim as of January 31, 2013. American Community continues to receive claims subrogation inquiries from various state Medicaid departments and Medicare.

American Community has a number of provider recovery contracts. The following identifies the vendor, the services performed and the amount collected from January 1, 2012 through December 31, 2012:

<u>Vendor</u>	<u>Services</u>	<u>Amount Collected</u>
AIM Healthcare	Hospital credit balances	\$ 8,542
AIM Healthcare	Subrogation/ Coordination of Benefits	\$ 58,805
AIM Healthcare	Overpayment Recovery	\$ 0
Healthcare Recoveries	Subrogation/Coordination of Benefits	\$ 117,002
Total Claims Capture & Control	Provider Billing Fraud	\$ 0

As of January 31, 2013 Healthcare Recoveries has 21 open subrogation claims in the course of collection with a gross outstanding paid claims balance of \$547,000.

American Community received two distributions under drug class action settlements. The first payment was from McKesson in May, 2011 in the amount of \$112,935. The second payment was from AstraZeneca in December, 2011 in the amount of \$16,951. There were no drug class action settlements during 2012.

In late February, 2011 American Community and Golden Rule began discussions related to coordination of benefits (COB) resulting from claims by members who had switched their coverage from American Community to Golden Rule. Golden Rule issues some individual medical coverage contracts under a group using an association model. Therefore, under the provisions of the group policy, Golden Rule would be primary. American Community and Golden Rule exchanged data to determine whether there had been any duplicate payments. As a result, American Community determined there were \$546,708 in claims payments that American Community had paid for which Golden Rule was the primary carrier. American Community sent collection letters to the providers to recoup the duplicate payments. As of January 31, 2013 American Community has recovered \$463,716 of the \$546,708 in duplicate payments. American Community continues to attempt collection of the balance.

American Community had pharmacy recovery balances of \$60,000 from individuals and \$270,000 from group policyholders who cancelled their coverage with American Community but continued to use their prior American Community member card to obtain prescriptions from pharmacies. American Community has been able to collect \$22,750 from individuals and \$87,042 from group policyholders for these pharmacy overpayments. Collection activities related to these pharmacy overpayments has been concluded and no additional recoveries are anticipated.

American Community signed a contract with Emdeon to provide electronic clearinghouse services for provider eligibility and claims status information as required by HIPAA. This contract will expire on October 31, 2013 when all policyholder claims appeal rights under their policies expire.

American Community's medical policies allow for a 15 month appeal after the date of service. Based on this the final date a claims appeal can be filed with American Community will be October 15, 2013.

The last Medicare Secondary Payor report was filed in April, 2012.

Agent Commissions

At the date of the Rehabilitation Order there were unpaid agent commissions for the period of April 1, 2010 through April 7, 2010. The amount of the liability was \$1,036,703.

The Deputy Rehabilitators suspended agent commissions effective September 16, 2010, but continued to calculate and record these suspended agent commissions as they were earned. The Deputy Rehabilitator petitioned the Court for payment of the unpaid pre-rehabilitation and suspended post-rehabilitation agent commissions on December 14, 2011. The Court approved payment of these agent commissions on January 4, 2012. As a result, American Community paid \$2,165,374 owed to agents on January 31, 2012.

American Community collected \$27 in agents' balance receivables between February 1, 2012 and January 31, 2013.

All respective American Community agents and agency appointments have been terminated.

Expenses

American Community reduced its monthly operating expenses from \$1,000,000 in January 2011 to \$140,000 per month currently. The major areas of expense reductions were as follows:

- Despite increased retention costs American Community's monthly salary expense has decreased \$240,000 per month due to staff reductions.
- Due to the termination of policyholders American Community's network access fees decreased resulting in cost savings of \$70,000 per month.
- Due to the decreased number of policyholders and negotiated equipment lease terminations, postage and printing expenses decreased \$40,000 per month.
- Due to termination of leasing an outside mainframe and associated software leasing and maintenance costs from discontinuing 22 separate operating systems the monthly cost savings is approximately \$400,000 per month.

During 2012 company operations were consolidated from four floors to a single floor in the home office building reducing monthly building operating and maintenance costs.

The Deputy Rehabilitator petitioned the Court for payment of the unpaid pre-rehabilitation vendor related expenses on December 14, 2011. The Court approved payment of the unpaid pre-rehabilitation vendors on January 4, 2012.

Provider Agreements

Medical Mutual of Ohio was American Community's main preferred provider network in Ohio. Prior to the Rehabilitation Order Medical Mutual of Ohio had sent American Community a letter dated March 11, 2010 giving notice that it was terminating its agreement with American Community with an effective termination date of June 9, 2010. The Deputy Rehabilitators discussed this matter with Medical Mutual of Ohio and concerns regarding transitioning of American Community policyholders over to other preferred provider networks in Ohio to allow them adequate access to care. On June 8, 2010 both parties executed an agreement which extended the termination date from June 9, 2010 to June 30, 2010. Medical Mutual of Ohio also agreed to reprice claims six months after the June 30, 2010 termination date and reduce Medical Mutual of Ohio's share of claims cost savings from 25% to 15%. This resulted in a cost savings to American Community of \$83,000 through January 31, 2011. Policyholders assigned to the Medical Mutual of Ohio preferred provider network were reassigned to the PHCS or American Community ("ACM Network") preferred provider networks. On December 22, 2010 the parties agreed to extend the period of time that Medical Mutual of Ohio would reprice claims until April 30, 2011. The contract has now terminated and this matter is concluded.

Prior to the rehabilitation, Mercy Health Systems terminated their preferred provider network agreement in Ohio. American Community transitioned the members assigned to Mercy Health Systems to the PHCS and ACM Network preferred provider networks in Ohio.

On September 27, 2010 American Community received letters of termination from two providers belonging to the Ohio Health Managed Care provider network. The Deputy Rehabilitators provided them with a copy of the Rehabilitation Order and the prohibition against termination of provider contracts. On October 11, 2010 Ohio Health Managed Care sent a letter rescinding their previous contract termination.

American Community continued to receive letters of interest from providers interested in contracting with American Community to provide medical services and become part of the ACM Network in Ohio. Since the inception of the rehabilitation American Community added 97 additional providers to its network in Ohio and added 4 providers in Indiana.

In September, 2011 American Community sent notice of termination letters to all 2,230 contract holders in the ACM Network in Ohio and Indiana informing them that all claims for payment had to be submitted prior to November 1, 2011 and their contract with American Community would be terminated effective December 31, 2011.

In March, 2011 American Community terminated its contract with HealthLogix for producing membership identification cards. The cancellation of this contract generated cost savings of \$500 per month. Membership identification cards were produced internally after the contract cancellation.

In May, 2011 American Community amended its preferred provider contract with Cofinity to allow Cofinity to produce claims on paper at per cost basis rather than file electronically. The effective date of the change was January 1, 2012.

In May, 2011 American Community terminated its agreement with Sagamore, its Indiana preferred provider. American Community continues to receive discounts on claims incurred prior to July 1, 2011.

In June, 2011 American Community amended its preferred provider contract with Arizona Foundation for Medical Care. Under the terms of the amendment Arizona Foundation for Medicare Care agreed to re-price claims for a discount incurred prior to May 31, 2011 for free until August 31, 2011 and then at a \$1.25 per claim until the contract terminated on August 31, 2012.

In July, 2011 American Community extended its contract with Midlands Choice to December 31, 2011. Midlands Choice agreed to re-price claims for no fee through March 31, 2012 and then for 20% of the discount after March 31, 2012.

In October, 2011, American Community extended its current contract with VPS, its vision preferred provider, through July 1, 2012.

In April, 2012 American Community notified its preferred provider organizations (PPO) networks (Sagamore, Cofinity, HealthEOS, Encore, Lakeland, Beech Street and American Dental Network) informing them that the PPO would receive a final American Community eligibility file on April 27, 2012 and American Community would be moving to a manual claims system on April 30, 2012 and electronic data submission of claims would be shut down effective April 30, 2012. These PPO networks were further advised they should continue to submit claims for services rendered prior to the certificate/policy's termination date through July 31, 2012. The PPO networks were also advised that all members assigned to their networks had their coverage expire effective April 30, 2011 and their contracts with American Community would be terminated effective May 31, 2012.

In May, 2012 American Community sent a letter to Private Health Care Systems (PHCS) with and without Multiplan advising them that the American Community contract with PHCS with Multiplan was terminated July 1, 2012 and PHCS without Multiplan was terminated effective July 15, 2012. There were also agreements with PHCS regarding processing claims without charges through October 15, 2012 and a fee of 25% of savings thereafter through October 15, 2013.

Employee Matters

Prior to rehabilitation American Community began the process of laying off its employees beginning in October, 2009. Between October, 2009 and March, 2010 American Community laid off 171 employees. All these employees received non-contractual severance benefits.

When the Rehabilitation Order was entered, the Deputy Rehabilitators began the process of reviewing the proposed lay off schedule and requested department managers to provide recommendations on staffing. The Deputy Rehabilitators also discontinued any severance payments for subsequent layoffs. As a result, the Deputy Rehabilitators provided WARN notices to 94 employees on April 15, 2010. Following is the schedule of staff reductions:

<u>Number of Employees</u>	<u>WARN/Extension Notification Date</u>	<u>Final Pay Date</u>
15	May 13, 2010	July 15, 2010
6	May 25, 2010	July 29, 2010
19	June 18, 2010	August 26, 2010
4	July 23, 2010	October 7, 2010
1	August 9, 2010	September 23, 2010
20	August 19, 2010	October 21, 2010
11	September 2, 2010	November 4, 2010
5	September 16, 2010	November 18, 2010
2	October 7, 2010	December 2, 2010
1	October 8, 2010	December 16, 2010
1	October 12, 2010	November 18, 2010
4	October 28, 2010	December 30, 2010
2	November 3, 2010	December 16, 2010
4	January 5, 2011	March 10, 2011
2	February 1, 2011	April 7, 2011
2	February 8, 2011	April 21, 2011
6	March 1, 2011	May 5, 2011
5	March 29, 2011	June 6, 2011
1	May 3, 2011	August 25, 2011
1	July 2, 2011	September 8, 2011
10	October 25, 2011	December 29, 2011
1	March 2, 2012	April 30, 2012
2	April 2, 2012	May 31, 2012
3	May 2, 2012	June 30, 2012
7	June 2, 2012	July 31, 2012
2	June 17, 2012	August 15, 2012
9	July 3, 2012	August 31, 2012

In addition to the layoffs, American Community had 37 voluntary resignations between the Rehabilitation Order and August 31, 2012.

American Community currently has 3 contracted employees.

A 2010 retention plan was put into effect. The basic plan paid an additional percentage of salary based on the length of time an employee agreed to stay:

April 8, 2010-July 8, 2010	2.5% of base pay
July 9, 2010-October 8, 2010	4.0% of base pay
October 9, 2010-December 31, 2010	7.0% of base pay

Employees were required to sign a written understanding of the retention program. While the 2010 retention plan was helpful in retaining employees, American Community lost a significant number of informational technology personnel. American Community's information systems had a number of company specific systems and applications. As a result a new 2011 retention plan was implemented which significantly increased retention costs. Employees were required to sign revised written agreements in order to be eligible to receive the retention bonus. Retention bonuses were paid on a semi-annual basis. American Community then entered into written retention and salary agreements with the remaining staff for 2012. The terms of these written retention and salary agreements expired in August 2012 and all related obligations were paid. All employee insurance benefits were terminated August 31, 2012. As stated, the 3 remaining employees are contract employees.

At the time of rehabilitation, four retirees were receiving either a monthly Supplemental Retirement Benefit or a Retirement Benefit Equalization Payment. The total aggregate monthly retiree benefit for the four retirees was \$4,862 payable until the retiree's death. These payments were suspended upon entry of the Rehabilitation Order. Subsequently, the Deputy Rehabilitator made present value cash offers to all four of the retirees. Initially, three of the retirees accepted the present value cash offers and signed settlement agreements releasing American Community from any future monthly payments. On December 14, 2011 the Deputy Rehabilitator requested the Court to approve these present value payments. The Court approved these payments on January 4, 2012. Subsequently, the fourth retiree also accepted the present value cash offer and signed a settlement agreement releasing American Community from any future monthly payments. The Deputy Rehabilitator requested the Court to approve this settlement payment on March 9, 2012, which the Court approved by Order dated March 21, 2012. After a motion for reconsideration was filed by counsel for the retiree's ex-wife, the Court entered an Order on April 9, 2012 requiring this settlement payment to be divided equally between the retiree and his ex-wife pursuant to their divorce decree.

In addition to the Supplemental Retirement/Benefit Equalization payments, two former officers who were terminated prior to the Rehabilitation Order were receiving severance payments pursuant to settlement and release agreements that they executed upon their termination and before the rehabilitation. These severance payments were in active pay status but were suspended when the Rehabilitation Order was issued. The Deputy Rehabilitator made discounted cash settlement offers to both former officers to resolve their potential claims. Both officers accepted the discounted offers and signed additional

settlement and release agreements. The Deputy Rehabilitator sought Court approval of these settlement payments on December 14, 2011, and the Court approved the payments on January 4, 2012.

On May 19, 2011 American Community sent a letter to Fidelity Investments advising them that American Community intended to terminate its 401(k) plan effective December 31, 2011. On June 8, 2011 American Community sent a formal letter to Fidelity advising them of the December 31, 2011 termination date. On June 24, 2011 American Community advised both current and former employees who were still participants in the 401(k) plan of the December 31, 2011 termination date. In October, 2011 American Community advised all current plan participants of meetings with Fidelity to discuss their options. These meetings were held in November, 2011. On December 5, 2011 American Community sent a letter to Fidelity to make all plan participants 100% vested and to change all active status codes to terminated. On December 13, 2011 American Community sent a letter to Fidelity to process lump sum distributions to participants who still had funds as of February 28, 2012. American Community sent a reminder letter on January 30, 2012 to participants advising that they had until February 28, 2012 to withdraw their funds or receive a lump sum distribution. The 2011 audit of the 401(k) plan was completed by Plante Moran in June, 2011. Plante Moran completed their final audit in 2012.

After investigation American Community discovered that it has not filed its Form 5500 for Health/Dental, Life Insurance, AD&D and Disability Coverage with the IRS for the years 2006-2009. American Community filed the delinquent forms and the IRS agreed to a voluntary compliance program penalty of \$4,000 which was paid on October 28, 2011.

FINANCIAL

Home Office Building

After a competitive bid process, the Deputy Rehabilitators signed an Exclusive Right to Sell or Lease Agreement on July 26, 2010 with Summit Commercial to market American Community's home office in Livonia, Michigan for sale or lease of excess office space to generate rental income. The Court approved the agreement on August 3, 2010.

Subsequent to engaging Summit Commercial, American Community received one offer for the property in the amount of \$1,980,000 which was rejected and another offer for \$3,750,000 which was also rejected. On November 8, 2010 Agree Development, LLC made an offer of \$4,600,000 for the property which the Deputy Rehabilitators accepted. After receiving a draft purchase agreement the Deputy Rehabilitators engaged the services of Lucy R. Benham, a real estate attorney, to review and assist in drafting the proposed purchase agreement. The Court approved the retainer agreement with Ms. Benham on December 2, 2010. A Purchase Agreement was finalized and signed by the parties on December 8, 2010. As part of the Purchase Agreement, the parties agreed that the earliest the sale could close was April 30, 2012, which the Rehabilitator could extend for an additional 120 days to August 30, 2012. The Court approved the Purchase

Agreement on December 22, 2010. In late April, 2011 Agree exercised a 60 day extension of their due diligence period until August 20, 2011. On August 12, 2011, however, Agree terminated the Purchase Agreement.

Subsequent to Agree's termination of the Purchase Agreement, the Deputy Rehabilitator agreed to lower the asking price of the property in an attempt to sell the property.

On October 7, 2011 the Deputy Rehabilitator received a draft Purchase Agreement to purchase the property. While the Deputy Rehabilitator and the prospective purchaser were attempting to finalize a revised Purchase Agreement the Deputy Rehabilitator was allowed to continue to market the property. During October and November, 2011 the Deputy Rehabilitator received three written offers for the property ranging from \$2,500,000-\$4,950,000. The \$4,950,000 prospective purchaser and the Deputy Rehabilitator were not able to come to agreement on a final Purchase Agreement due to the length of time for the purchase to close and the amount of funds to be deposited. The Deputy Rehabilitator then received an additional offer of \$4,300,000 from Gary Tadian which had a much shorter time frame to closing and also a substantial increase in deposit funds. The parties signed a Purchase Agreement on February 16, 2012. A petition for Court approval was filed on March 9, 2012 and the Court approved the sale on March 21, 2012. However, Gary Tadian rescinded the purchase agreement on July 31, 2012 when the two parties could not agree on a revised purchase price based on the condition of the building.

In mid-August, 2012 the Deputy Rehabilitator received an offer for the property of \$3,000,000 and also a purchase offer of \$4,000,000 from Lormax Stern. On August 17, 2012 the Deputy Rehabilitator and Lormax Stern executed a Purchase Agreement. A petition for Court approval was filed on September 6, 2012 and on September 19, 2012 the Court approved the sale. Lormax Stern petitioned the Livonia Planning Commission to rezone the American Community property from office designation to commercial similar to what surrounding properties were zoned which would have allowed retail development at the site. The Livonia Planning Commission held a public meeting in November 2012 to hear the rezoning request. At the meeting, Schoolcraft College and Seven Mile Crossing (a property owned by Schoolcraft) objected to the rezoning request and the Livonia Planning Commission ultimately rejected the request to have the property rezoned from office to commercial. The Deputy Rehabilitator considered various options including appealing the Livonia Planning Commission's decision to the Livonia City Council. On December 3, 2012 Lormax Stern indicated they were no longer going forward with project and they were terminating their purchase offer.

Summit Commercial relisted the property for sale. We received one written offer for \$3,250,000 and an offer from Schoolcraft College for \$3,440,000. On January 8, 2013 the Deputy Rehabilitator signed a Purchase Agreement with Schoolcraft College based on the higher purchase price and shorter due diligence period. The Court approved the sale of the property to Schoolcraft on January 23, 2013. Schoolcraft completed its 7-day due diligence process, after which the sale to Schoolcraft closed on February 28, 2013.

Investments

American Community had engaged an asset management company, Boyd Watterson, and an investment advisor company, CapTrust Advisors, when the Rehabilitation Order was issued. After careful review, the CapTrust Advisors agreement was terminated and the Boyd Watterson agreement retained. The Deputy Rehabilitators provided revised investment guidelines consistent with safety and liquidity and the reduction in the company's business. The Deputy Rehabilitator terminated the Boyd Watterson contract effective August 8, 2011 at a monthly cost savings of \$5,000. Comerica remains the custodian bank for all securities holdings.

American Community's NAIC bond quality as of January 31, 2013 is as follows:

Class 1 100.0%

Class 1 bonds are considered high investment grade securities.

American Community's security portfolio has 100% of its investments maturing within 2 years.

Comerica has also held funds in a separate collateral account to cover potential cancellation of premium payments using electronic fund transfers or automated clearinghouses. During 2011 and 2012 the Deputy Rehabilitator analyzed the activity in the account and at various times requested release of funds from the collateral account to American Community's Comerica account. As a result Comerica is currently holding \$50,000 in the collateral account. It is anticipated the Rehabilitator will request a release of all remaining funds within the next few months.

Reinsurance

American Community had a medical excess reinsurance agreement with several members of the Lloyd's Syndicate. For the period of January 1, 2010 through December 31, 2010 this reinsurance covered claims in excess of \$750,000 per covered person with a maximum coverage per covered person of \$5,000,000. The contract was experience rated and American Community can receive 25% of the profit over the 12 month period. The profit is calculated as 65% of the premiums paid to reinsurers less the claims paid by the reinsurers. American Community notified Lloyd's of its calculation of \$112,803 as being payable for 2010 under the experience refund formula. American Community received the \$112,803 on February 8, 2012.

American Community renewed its medical excess reinsurance agreement with several members of Lloyd's Syndicate for the period of January 1, 2011 through December 31, 2011. The reinsurance covered claims in excess of \$500,000 per covered person with a maximum coverage of \$5,000,000 per covered person. There was no experience rating provision. After review American Community declined to renew this coverage for 2012.

In July, 2011 American Community received an experience rated refund of \$12,907 for the January 1, 2009 through December 31, 2009 reinsurance contract period.

Reserves

Prior to the rehabilitation American Community's consulting actuary was Oliver Wyman. Oliver Wyman provided management services for the actuarial department, rate filings, health reserves and small group certifications. On April 19, 2010, the Deputy Rehabilitators terminated Oliver Wyman's management services for the actuarial department but retained Oliver Wyman for the other services. In May, 2010, the Deputy Rehabilitators transitioned the remaining actuarial services to Lewis & Ellis. Each month American Community actuarial staff prepared a memorandum calculating the health reserves. On a quarterly basis the internal actuarial staff also prepared the calculation of premium deficiency reserves. On a quarterly basis Lewis & Ellis reviewed the health reserve and premium deficiency reserves calculated by the American Community actuarial staff to insure the calculated reserves are adequate. As a result of Lewis & Ellis' review the additional reserve margin was increased from 8% of reserves to 10% of reserves. Lewis & Ellis also assisted American Community with any rate filings, small group certifications and annual actuarial certification.

American Community discontinued monthly and quarterly reviews by Lewis & Ellis after the January, 2011 monthly reserve calculations. Lewis & Ellis certified American Community's December 31, 2010 reserves and issued its actuarial certification which was filed with American Community's 2010 annual statement. As noted elsewhere in this report, Lewis & Ellis prepared all of the 2010 small group certifications and assisted American Community in reviewing and revising its Medicare Supplement product rates. Due to the HIPAA withdrawal, American Community reduced its premium deficiency reserve to \$-0- as of April 30, 2011. Due to poor March 2011 claims experience American Community established a large claim reserve of \$1,500,000 which was later reduced to \$1,000,000 in July, 2011. American Community's last internal actuary resigned in July, 2011. Prior to departure, the internal actuary prepared estimated monthly reserves by month through December 31, 2012. American Community uses these calculations in preparing its financial statements. These reserves include a 10% margin and also a large claim reserve of \$1,000,000. American Community compares actual monthly claims payments to the expected monthly claims paid. For the period of August 2011 through December 2012 there has been an aggregate \$435,000 redundancy between actual claims paid monthly versus monthly estimated paid claims. Due to the actual claims experience American Community eliminated the \$1,000,000 large claim reserve. Currently American Community maintains a claims reserve of \$600,000.

Sale of Assets

During the period of February 1, 2012 through January 31, 2013, American Community conducted several sales of surplus office furniture, computer equipment and office supplies. The total proceeds from the sales of supplies and equipment for this period is

\$48,410. The total proceeds from sales of furniture, supplies and equipment since the beginning of the rehabilitation is \$125,283.

Federal Income Taxes

The 2011 federal tax return was prepared by Baker Tilley and was filed on May 11, 2012. Baker Tilley has been engaged to prepare the 2012 federal tax return.

The Internal Revenue Service (IRS) has asserted additional amounts are owed for alleged filing deficiencies related to Tax Identification Numbers (TINs) for 2007 and 2008. American Community has provided information including Forms Bs for both tax years to the IRS. As a result, the IRS abated the entire \$8,781 penalty for 2007 and \$11,950 penalty for 2008. The IRS has also asserted an \$11,300 penalty for 2009 TIN numbers. After documents had been exchanged American Community and the IRS agreed to a payment of \$50 to settle this matter. American Community paid the penalty on March 21, 2012. The IRS had asserted \$15,400 penalty regarding the 2010 TIN numbers. American Community provided additional information for the 2010 tax year. As a result the IRS agreed to abate the entire \$15,400 penalty for the 2010 tax year. The IRS has sent a preliminary inquiry for the 2011 tax year and we have supplied the requested documentation. The IRS has not yet asserted a penalty for the 2011 tax year. The IRS has also alleged there was an additional amount of \$10,854 related to payroll taxes for 2009. We responded and the IRS has agreed there were no additional payroll taxes owed. However, we are still negotiating with the IRS regarding related interest and penalties.

State and Local Taxes

The 2011 state income tax returns for Illinois and Nebraska were prepared by Baker Tilley and filed on May 11, 2012. American Community filed its 2011 Michigan Business Tax return with the State of Michigan Treasury Department on February 14, 2012.

American Community received verification from the City of Livonia that its assessed value for 2011 personal property taxes had been reduced by 78% based upon an updated inventory provided by American Community which reduced the value of American Community's taxable equipment and furniture from \$1,042,810 to \$230,140. The 2011 reduction yielded a \$32,000 decrease in personal property taxes. American Community has recently updated its inventory for 2012 which shows a decrease of taxable equipment and furniture from \$230,140 to \$134,160. American Community received its 2011 real property tax assessment and appealed the amount of that assessment. As a result the taxable value of the property was reduced from \$5,284,750 to \$4,000,000 which resulted in a tax savings of \$66,000. During 2012 the City of Livonia notified American Community that the taxable value of the property had been lowered from \$4,000,000 to \$3,500,000.

Auditing and Actuarial

As indicated, when American Community was placed into rehabilitation, Oliver Wyman was the consulting actuary. The Deputy Rehabilitators reviewed the scope of Oliver Wyman's services and reduced or eliminated some of the services. After some discussion and review, the Deputy Rehabilitators engaged Lewis & Ellis to perform a limited set of actuarial services, including premium deficiency reserves, quarterly actuarial reviews and rate related work. As a result, Oliver Wyman was terminated. In April, 2011 Lewis & Ellis' scope of services was reduced such that Lewis & Ellis no longer performed a quarterly or annual certification of company reserves. Due to a majority of business being terminated as of May 1, 2011 there was no longer a need for a deficiency reserve calculation. Lewis & Ellis are still engaged to perform specific actuarial analysis on various issues as needed. During 2012 Lewis & Ellis assisted the Deputy Rehabilitators with the individual and small group medical loss ratio filing requirements under the Health Care Reform Act.

On April 13, 2011 the Deputy Rehabilitator requested the Commissioner of the Office of Financial and Insurance Regulation to provide a waiver exempting American Community from preparing or filing any future regulatory quarterly or annual financial statements. On April 14, 2011, the Commissioner approved American Community's request. American Community is required to prepare monthly financial statements in accordance with the Office of Financial and Insurance Regulation's Receivership policies.

On October 6, 2010 American Community requested the Commissioner of the Office of Financial and Insurance Regulation to exempt American Community from obtaining an audited financial report for 2010. The Commissioner approved the exemption on October 11, 2010. On December 1, 2011 American Community requested the Commissioner to exempt American Community from obtaining an audited financial report for 2011 and future periods. The Commissioner approved this request on December 16, 2011. The exemption is expected to save American Community \$150,000 annually in audit fees.

EXHIBITS

The following are exhibits attached to this Court Report:

- Exhibit A Balance Sheet-January 31, 2013
- Exhibit B Income Statement-February 1, 2012 to January 31, 2013
- Exhibit C Cash Receipts-February 1, 2012 to January 31, 2013
- Exhibit D Cash Disbursements-February 1, 2012 to January 31, 2013
- Exhibit E Professional Expenses-February 1, 2012 to January 31, 2013

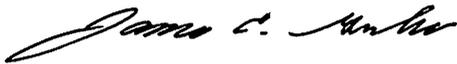
CONCLUSION

The following are the major goals for 2013:

- Transition the ordinary life and annuities currently reinsured with American Underwriters to American Underwriters and Lifeshield.
- Process the remaining claims incurred prior to the HIPAA termination (“run off claims”) through the remainder of 2013.
- Investigate setting up a liquidating trust to handle any potential future claims against the Company so the rehabilitation estate can be closed.
- Complete the sale of the company home office building, which was already accomplished on February 28, 2013.

The Deputy Rehabilitator would like to thank all the dedicated American Community employees for their professionalism and efforts during the rehabilitation process.

Respectfully submitted,



James E. Gerber
Deputy Rehabilitator
American Community Mutual
Dated: March 13, 2013

American Community Mutual Insurance Company
Balance Sheet
As of January 31, 2013
Statutory Basis

	Jan 2013
Assets	
Cash and investments	\$ 428,829
Short-term investments	10,780,572
State Deposits & Restricted Funds	6,225,204
Bonds	500,000
Total cash and investments	17,934,605
Building	3,500,000
Investment income due	29,321
Premiums due	-
Premium tax recoverable	67,224
PBM rebates recoverable & other	162,752
	\$ 21,693,902
Liabilities	
Claim reserves	\$ 600,000
Premium received in advance	-
Commissions due and accrued	-
Accrued general expenses	362,617
Taxes, licenses and fees due	164,638
Remittances not allocated	-
Discontinued operations liability	3,197,079
Reserve for unclaimed property	14,042
Total liabilities	4,338,376
Capital and surplus	17,355,526
Total liabilities, capital & surplus	\$ 21,693,902
Nonadmitted Assets:	
Security deposits	-
Prepaid expenses	-
Agent debit balances	-
PBM rebate accrual	-
Total nonadmitted assets	\$ -

American Community Mutual Insurance Company
Income Statement
For the period from February 1, 2012 through January 31, 2013
Statutory Basis

Net premiums earned	\$ 49,089
Benefits incurred	(590,491)
Change in premium deficiency reserve	-
Net benefit expense	<u>(590,491)</u>
Commissions	<u>7,375</u>
Contribution	632,205
Salaries, benefits and payroll taxes	1,867,275
Information technology	1,932,542
Other general expenses	1,267,574
Taxes and fees	<u>(65,581)</u>
Total admin, taxes and fees	5,001,810
Net underwriting loss	<u>(4,369,605)</u>
Net investment income and net realized gains	301,807
Ceding & profit commission	24,657
Gain on the sale of business	(850,000)
Change in discontinued operations	<u>5,874,008</u>
Net operating loss	<u><u>\$ 980,867</u></u>
Surplus Rollforward	
Beginning capital and surplus	\$ 16,020,812
Net operating loss	980,867
Change in nonadmitted assets	353,847
Ending capital and surplus	<u><u>\$ 17,355,526</u></u>

American Community Mutual Insurance Company
Cash Receipts
For the period from February 1, 2012 through January 31, 2013

Premiums collected (net of refunds)	\$ 48,270
Pharmacy Rebates Recovered	139,967
Provider recoveries	184,091
Ceding and profit commission	24,657
Net investment income	474,078
Bond disposal proceeds	17,019,794
Assumption agreement adjustment	<u>202,000</u>
Total Cash Receipts	<u>\$ 18,092,857</u>

EXHIBIT D

**American Community Mutual Insurance Company
Cash Disbursements
For the period from February 1, 2012 through January 31, 2013**

Benefits paid	\$ 523,859
Commissions	(158,230)
Salaries	2,080,015
Information technology	1,882,542
Underwriting, claims and network services	5,793
Building expense	487,599
Legal fees	71,497
Accounting & actuarial fees	10,430
General expenses & other *	1,273,140
Taxes, licenses and fees	(8,169)
Bond purchases	5,457,310
Total Cash Disbursements	<u>\$ 11,625,786</u>

*Sale of furniture and Grp Pharmacy Rebates
have been netted against General Exp & Other

EXHIBIT E

**American Community Mutual Insurance Company
Professional Services Fees Paid
For the period from Feb 1, 2012 through January 31, 2013**

AHN PEARSON	\$ 11,180
ANSPACH MEEKS ELLENBERGER	88
APRIL RUTTENBERG	566
BAKER TILLY	8,455
BOSE MCKINNEY & EVANS	2,139
COVALENT FINANCIAL SERVICES	62,623
DYLAN CHANDLER	83
GREG OSGOOD	180
GRAPHIC SCIENCES	3,618
HALO GROUP	10,640
JANICE SYLVERTOOTH	48,501
JOHN STEVENSON	59,854
LAW OFFICES - LUCY BENHAM	13,777
LEANNE BENSON	97
LEWIS AND ELLIS	1,975
LIPSCOMB, JOHNSON, SLEISTER	300
MELLEN, SMITH & PIVOZ	4,950
MINDSHIFT TECHNOLOGIES	34,548
PAUL HYNEK	518
PLANT MORAN	9,700
SANDS ANDERSON PC	1,963
TECHTEAM	23,300
TYLER SPURGEON	92
	<u>\$ 299,145</u>