Final

Report on the

Medical Loss Ratio Examination

of

John Alden Life Insurance Company
(Milwaukee, Wisconsin)

for the

2014 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201

OVERSIGHT GROUP

December 20, 2019

In accordance with Title 45 of the Code of Federal Regulations (CFR), section 158.402, the Center for Consumer Information & Insurance Oversight (CCIIO) has completed an examination of the Medical Loss Ratio (MLR) Annual Reporting Form submitted by John Alden Life Insurance Company (the Company) for the 2014 reporting year, including 2014, 2013, and 2012 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Recommendation. This final report, which will be made publicly available, incorporates the Company's responses and CCIIO's evaluation of the responses.

Christina A. Whitefield, Director
Medical Loss Ratio Division
Oversight Group
Center for Consumer Information & Insurance Oversight
Centers for Medicare & Medicaid Services
U.S. Department of Health & Human Services

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I. Executive Summary

The Center for Consumer Information & Insurance Oversight (CCIIO) has performed an examination of the 2014 Medical Loss Ratio (MLR) Annual Reporting Form for John Alden Life Insurance Company (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2014 MLR Annual Reporting Form contains some elements that are not fully compliant with the requirements of 45 CFR Part 158 and which impact consumer rebates.

While we generally recommend that the Company implement corrective actions to comply with various sections of 45 CFR Part 158, the Company informed CCIIO that it ceased selling health insurance coverage subject to 45 CFR Part 158 and that all such policies had terminated as of December 31, 2016. We therefore recommend that if the Company re-enters the markets that are subject to 45 CFR Part 158, the Company should ensure that incurred claims are reported accurately, the portion of its direct claims liability attributable to contingent benefit and lawsuit reserves are properly reported, reported quality improvement activity (QIA) expenses meet the regulatory definition, and that the average deductible is calculated correctly. Additionally, the Company should determine the impact of the findings on its MLRs and rebate liability, revise and resubmit its MLR Annual Reporting Forms for 2014, and disburse any resulting rebates (to the extent not already disbursed[1]) within sixty (60) days from the date of the Company's receipt of the Final MLR Examination Report.

The examination findings and subsequent recalculation of the Company's 2014 MLRs resulted in decreases to its reported MLRs in the individual and/or small group markets in 22 states. In 13 of these states, the lower MLRs continued to be above the MLR standard and thus no rebates were due. In the other nine states, the lower MLRs increased the Company's rebates for the 2014 reporting year by an estimated total of $23,698. The examination findings resulted in net increases to the Company's reported MLRs in the individual market in two states, reducing the rebates for the 2014 reporting year in one of these states by an estimated $22,854. The examination findings did not result in any change to the Company's reported 2014 MLRs for any of the other jurisdictions and markets in which it had health insurance coverage subject to 45 CFR Part 158 in effect.

II. Scope of Examination

CCIIO examined the Company's 2014 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 45 CFR Part 158 implements section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Patient Protection and Affordable Care Act (PPACA), generally requires health insurance issuers to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and

[1] The Company informed the examiners that during this examination, it had already paid a portion of the additional rebates, with interest, relating to two of the findings resulting from the examination.

regulatory fees, expended by a company on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires a company to provide rebates to consumers if it does not meet the MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form performed by CCIIO. The examination covered the reporting period of January 1, 2012 through December 31, 2014, including 2012 and 2013 experience and claims run-out through March 31, 2015. We conducted the examination in accordance with the CCIIO Medical Loss Ratio Examination Handbook (the Handbook). The Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Annual Reporting Form Filing Instructions.

The Company's response to each finding appears after the finding in the Conclusion and Recommendations section of this Report. The Company's corrective action was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's response is based solely on a review of the Company's response. CCIIO reserves the right to review the actual implementation of the Company's corrective action for each finding and proposed action plan in future MLR Annual Reporting Forms, examinations or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
8	**Inaccurate reporting of incurred claims –** The Company erroneously classified certain pharmacy claims in 13 states, which resulted in misallocation of the Company's incurred claims totaling $170,264 between the individual and small group markets in these states.
8	**Failure to properly report contingent benefit and lawsuit reserve as required by §158.140 and the MLR Reporting Form Instructions –** The Company reported its litigation reserve as a part of its direct claims liability in three states, for all years under examination, rather than separately in Part 2, Line 2.13, as required by the MLR Annual Reporting Form Filing Instructions. There was no impact to the Company's MLRs as a result of this error.
8	**Reporting of Quality Improvement Activities (QIA) that did not meet the definition of a QIA as set forth in §158.150 –** The Company improperly reported 2012 and 2013 expenses related to concurrent utilization review as QIA in its 2014 MLR Annual Reporting Form. Such expenses totaled $47,287 in 43 states in the individual market, $1,748 in 39 states in the individual mini-med

Page	Key Findings
	market, $104,957 in 36 states in the small group market, and $6,825 in 26 states in the large group market.
9	**Failure to correctly calculate the average deductible in accordance with §158.232(c) –** The Company incorrectly determined the average per person deductible for policies with a family deductible in 23 states in the individual market.

These findings resulted in net decreases to the Company's reported MLRs in the individual and/or small group market in 22 states. In 13 of these states (Colorado, Florida, Indiana, Iowa, Minnesota, Nebraska, North Dakota, Oklahoma, Pennsylvania, South Carolina, Texas, Wisconsin, and Wyoming), the lower recalculated MLRs continued to be above the MLR standard and thus no rebates were due. In the other nine states (Arizona, Georgia, Illinois, Kansas, Michigan, Montana, North Carolina, Ohio, and Tennessee), the lower recalculated MLRs resulted in additional rebates due in those states totaling an estimated $23,698 for the 2014 reporting year.[2]

The examination findings resulted in net increases to the Company's MLRs in the individual market in two states. In the Texas individual market, the recalculation increased the MLR by 0.5 percentage points and reduced the rebate obligation for the 2014 reporting year by an estimated $22,854. In the Georgia individual market, the recalculated MLR continued to be above the MLR standard and thus no rebates were due.

The examination findings did not impact the Company's MLRs in any other jurisdiction or market in which it had health insurance coverage subject to 45 CFR Part 158 in effect, including all 33 states in the large group market and all 42 states in the individual mini-med market. In some jurisdictions and markets (21 states and the District of Columbia in the individual market, 14 states and the District of Columbia in the small group market, 30 states in the large group market, and all 42 states in the individual mini-med market), the Company reported fewer than 1,000 life years during the three-year aggregation period and is therefore presumed to meet the applicable MLR standards in accordance with §158.230(d).

The three-year aggregated incurred claims and earned premium amounts for the 2014 reporting year, combined for all 50 states and the District of Columbia in each market, along with the additional estimated rebates owed for 2014, are shown in the following tables. The differences between the amounts in the "As Recalculated" and the "As Filed" rows reflect the adjustments made as a result of reallocating incurred claims related to certain sole proprietor policies from the small group market to the individual market, disallowed QIA expenses, and correction of the deductible factors.

[2] The Company informed the examiners that during this examination, it had already paid a portion of the additional rebates, with interest, relating to two of the findings resulting from the examination.

Recalculated Aggregate[3] Individual, Individual Mini-Med, Small Group, and Large Group Market Incurred Claims, Earned Premium, and Rebates for the 2014 Reporting Year

	Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$148,932,851	$224,096,489	$1,045,664
As Recalculated	$149,103,115	$224,096,489	$1,057,874
Difference	$170,264	$0	$12,210

	Small Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$454,782,754	$592,731,585	$1,544,165
As Recalculated	$454,612,490	$592,731,585	$1,555,653
Difference	($170,264)	$0	$11,488

	Large Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$28,782,496	$38,518,508	$37,865
As Recalculated	$28,782,496	$38,518,508	$37,865
Difference	$0	$0	$0

	Individual Mini-Med Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$5,740,805	$11,637,635	$0
As Recalculated	$5,740,805	$11,637,635	$0
Difference	$0	$0	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit life insurance company domiciled in the State of Wisconsin and is licensed to sell life insurance, health insurance, and related products in all 50 states and the District of Columbia.

During the 2012, 2013, and 2014 MLR reporting years, the Company operated in the individual, small group, and large group markets, as well as the individual mini-med market, that were subject to the MLR reporting requirements under 45 Part 158. As of December 31, 2014, the Company reported a total of 31,395 covered lives and $172,122,297 in direct earned premium from policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 60,454 covered lives and $186,881,309 in direct earned premium from all health lines

[3] See Appendix I to this report for the three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for the 2014 reporting year, for the states and markets in which the MLRs changed as a result of the examination findings.

of business. Lines of health business not subject to the MLR regulations at 45 CFR Part 158 include disability, stop loss, Medicare supplement, group dental, voluntary indemnity, and long-term care coverage.

The Company informed CCIIO representatives that it ceased selling health insurance coverage that is subject to the MLR regulations at 45 CFR Part 158. According to the Company, as of December 31, 2016, all such policies had terminated.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2014 were:

Officers

Name	Title
Adam D. Lamnin	President & CEO
Mark D. Berquist	Treasurer & CFO
Jennifer M. Kopps-Wagner	Corporate Secretary
Raymond R. Brouillette	Vice President - Chief Actuary
Steven J. Cain	Senior Vice President
Brian N. Rees	Actuary
Christopher A. Dowler	Senior Vice President
Scott G. Krienke	Senior Vice President
David F. Oury	Senior Vice President
Charles R. Steele	Senior Vice President

Directors

Name
Mark D. Berquist
Jennifer M. Kopps-Wagner
Adam D. Lamnin

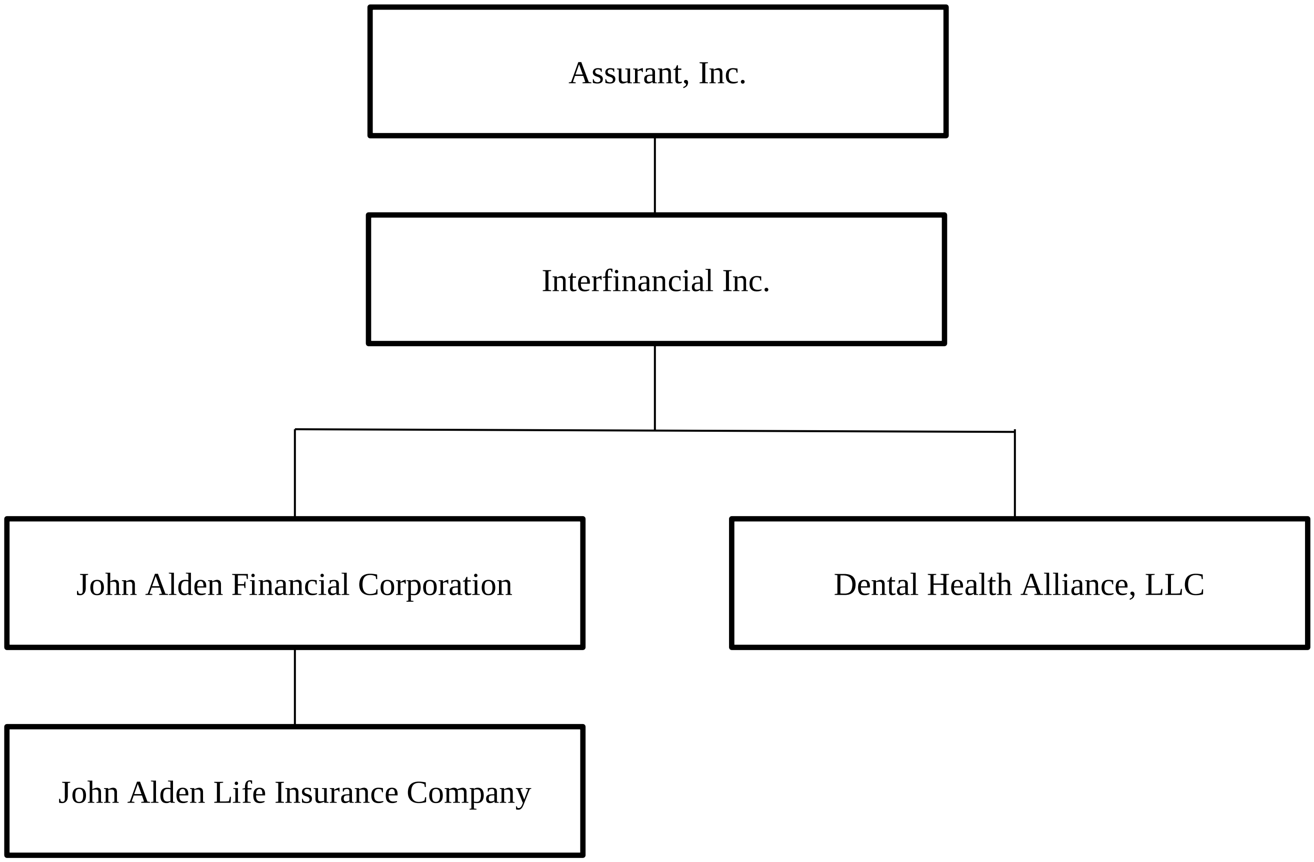
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2014 MLR Annual Reporting Form were:

Name	Title
Jennifer M. Kopps-Wagner	CEO Attester
Mark D. Berquist	CFO Attester

C. Ownership

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

John Alden Life Insurance Company
Organizational Chart[4] as of December 31, 2014



D. Agreements

As of December 31, 2014, the Company had entered into the following intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. A Management Agreement with Assurant, Inc.
2. An Assignment and Assumption of Investment Management Agreement with Assurant, Inc.
3. A Federal Tax Allocation Agreement with Assurant, Inc. and other affiliated group members.
4. An Affiliate Services Agreement with various affiliated group members.
5. A Network Access Agreement with Dental Health Alliance, LLC.

E. Reinsurance

During 2012, 2013 and 2014, the Company had reinsurance agreements with various non-affiliated insurance entities. None of the reinsurance agreements had an impact on the MLR Annual Reporting Form.

[4] This is an excerpt from the organization chart provided by the Company and includes only those entities whose relationship to the Company impacted the MLR examination.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 501 West Michigan Street, Milwaukee, Wisconsin 53203. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

VI. Examination Results

Except as noted in this report, based on the procedures performed, nothing came to our attention that would indicate that the Company's 2012, 2013, and 2014 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2012, 2013, and 2014 MLR Annual Reporting Forms were filed by or before the required due date.

For all three years under examination, the Company filed an MLR Annual Reporting Form for 50 states plus the District of Columbia. For the 2014 MLR reporting year, the Company reported that it met the MLR standard in 130 of the 146 state and market segments where it had business subject to the rebate requirements of 45 CFR Part 158, and was required to pay rebates to its enrollees: in nine states in the individual market; in six states in the small group market; and in one state in the large group market.

Based on the errors found during the examination, MLRs for the 2014 reporting year were recalculated and resulted in an additional estimated rebate liability of $23,698 in the individual and/or small group markets in nine states.

A. MLR Data

Market Classification Policies and Procedures
The Company has adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2012-2014 reporting years. Nothing came to our attention that would indicate that the samples of policies tested during the examination were not assigned to the correct market classification.

Aggregation
Based upon the procedures performed, other than the incurred claims reporting error noted below, nothing additional came to our attention that would indicate that the samples of policies, claims and other items tested during the examination were not correctly assigned to the appropriate states, markets, and lines of business, in accordance with §158.120.

Incurred Claims
Although it employed procedures to correctly determine the group size and market classification of its policies, the Company incorrectly reported 463 pharmacy claims in the small group rather than the individual market on its 2014 MLR Annual Reporting Form. The claims were associated with sole proprietor policies and should have been reported in the individual market. Consequently, incurred claims for the small group market was overstated by $170,264 and incurred claims in the individual market were understated by the same amount.

Failure to Properly Report Contingent Benefit and Lawsuit Reserves

The Company reported $3,861 of litigation reserves as a part of its direct claim liability, rather than reporting that amount separately in Part 2, Line 2.13 of its 2014 MLR Annual Reporting Form, as required by the MLR Annual Reporting Form Filing Instructions. According to the Instructions, a company does not need to separately report a data element in the 12/31 column of the MLR Annual Reporting Form that is not reported separately on the issuer's financial statement filing to the state regulatory authority. However, the Instructions also indicate that a company must report such amounts in the 3/31 column of its MLR Annual Reporting Form. This error did not impact the MLR calculation or the Company's rebate liability for 2014.

Methodology for Estimating the Direct Claims Liability

We note that, based on a comparison of the direct claims liability reported on the 2013 and 2014 MLR Annual Reporting Forms and the true-up of the 2013 and 2014 claims as reported by the Company in subsequent years, it appears that the Company's estimates of the direct claims liability in many, although not all, states consistently exceeded the actual amounts subsequently paid by the Company in the individual market. Specifically, the analysis of the 2013 and 2014 claims development as of March 31, 2015 indicates that the direct claims liability reported by the Company on its 2013 and 2014 MLR Annual Reporting Forms for the individual market ultimately exceeded the actual claims payments in the majority of states where the Company incurred claims. However, the Company did not adjust its methodology to reflect these claims development trends and lower its estimate of the current year direct claims liability on its 2014 MLR Annual Reporting Form. We note that utilizing a methodology that consistently overestimates the direct claims liability could result in an overstatement of incurred claims. This error did not impact the MLR calculation or the Company's rebate liability for 2014.

Other than market classification errors with respect to certain pharmacy claims and failure to properly report contingent benefit and lawsuit reserves, based upon the procedures performed, including the validation of a sample of incurred claims reported by the Company, nothing additional came to our attention that would indicate that incurred claims (as defined by §158.140) were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts

Based upon the procedures performed, no errors were noted in how the Company reported recoveries of paid fraudulent claims, which §158.140(b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

Based on the procedures performed, the Company reported expenses for some QIA that did not meet the definition of QIA in §158.150.

Improper Inclusion of Expenses That Do Not Qualify as QIA

The Company improperly included in its 2014 Annual Reporting Forms QIA expenses for concurrent utilization review performed during 2012 and 2013, although the Company correctly excluded these expenses from QIA in the 2014 data. According to §158.150(c)(7), expenditures for retrospective and concurrent utilization review must not be reported as QIA. The aggregated amount of 2012 and 2013 expenses inappropriately included in QIA totaled an estimated $47,287 for the individual market, $104,957 for the small group market, $6,825 for the large group market, and $1,748 for individual mini-med market.

Based upon the procedures performed, other than the incorrect inclusion of expenses in QIA noted above, nothing additional came to our attention that would indicate that other QIA expenses were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

Federal Transitional Reinsurance and Risk Adjustment Programs
Based upon the procedures performed, nothing came to our attention that would indicate that the Company did not properly report the net transitional reinsurance payments expected from HHS or the charges payable to HHS and payments expected from HHS under the federal risk adjustment program for the 2014 benefit year, in compliance with §158.140(b)(4)(ii).

Earned Premium
Based upon the procedures performed, nothing came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying 2012, 2013, and 2014 premium, as reported on the Company's 2014 MLR Annual Reporting Form, were not compliant with §158.130.

Taxes
Based upon the procedures performed, nothing came to our attention that would indicate that the taxes and regulatory fees excluded from 2012, 2013, and 2014 earned premium on the Company's 2014 MLR Annual Reporting Form did not comply with §158.161 and §158.162, or were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170 and in accordance with its federal tax allocation agreement. On its 2014 MLR Annual Reporting Form, the Company reported that it allocated its federal income taxes to each state and market based on the respective portion of pre-tax income or loss to the issuer's total pre-tax income or loss, which the examination confirmed.

B. Credibility-Adjusted MLR and Rebate Amount

Incorrect Calculation of the Average Deductible
The Company incorrectly calculated the average deductible in six states for some of its individual market policies for purposes of calculating the credibility adjustment. The Company incorrectly determined the per person deductible for policies with a family deductible. For such policies, the Company calculated the per person deductible using the lesser of (a) the deductible applicable to each of the individual family members or (b) the overall family deductible for the subscriber and subscriber's family. According to §158.232(c)(i), the Company should have divided the overall family deductible by two, in order to determine the lesser of amounts (a) and (b) in the calculation described above.

The examiners recalculated the Company's credibility adjustment in each affected state in the individual market after correcting the average deductible. The recalculation resulted in a lower

MLR than originally reported by the Company and a corresponding increase in rebate liability in these six states in the individual market.

Other than the use of incorrect average deductibles in the credibility adjustment calculation, the Company's credibility-adjusted MLRs were calculated using the correct formula in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions.

The Company filed a 2014 MLR Annual Reporting Form for 50 states and the District of Columbia, in which it reported that it did not meet the applicable MLR standard for the individual market in nine states, the small group market in six states, and the large group market in one state. As a result, the Company was required to and did pay rebates in these states and markets. In all other states and markets in which it had health insurance coverage subject to 45 CFR part 158 in effect, the Company reported in its 2014 MLR Annual Reporting Forms that it met the applicable MLR standards[5] and thus was not required to pay rebates to its enrollees for these states and markets.

C. Rebate Disbursement and Notice

According to its 2012, 2013, and 2014 MLR Annual Reporting Forms, the Company owed rebates in certain states for the individual, small group, and large group markets. Based upon the procedures performed, the Company timely issued rebates in accordance with §§158.240-158.244 and Notices of rebates in accordance with §158.250.

D. Compliance with Previous Recommendations

The Company indicated that neither CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. The Company informed CCIIO that the Wisconsin Office of the Commissioner of Insurance performed a financial examination of the Company in 2014 covering the period January 1, 2009 through December 31, 2013. The financial examination resulted in four findings, none of which impact the Company's federal MLR calculation or reporting.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2014 MLR Annual Reporting Form. As stated previously, the Company advised that it ceased selling health insurance coverage subject to 45 CFR Part 158 as of January 1, 2016 and all such policies terminated as of December 31, 2016.

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[5] As detailed above, in some jurisdictions and markets, the Company reported fewer than 1,000 life years during the three-year aggregation period and is therefore presumed to meet the applicable MLR standards in accordance with §158.230(d).

VIII. Conclusion and Recommendations

CCIIO has examined John Alden Life Insurance Company's 2014 MLR Annual Reporting Form to assess compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2014 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. The cumulative effect of all errors and findings resulted in $23,698 in estimated additional rebate liability in the individual and/or small group markets in nine states for the 2014 MLR reporting year. The examination findings did not impact MLR rebates in any other states or markets where the Company offered health insurance coverage subject to 45 CFR Part 158 since recalculating the MLR to correct for the incorrectly reported items did not cause the Company's MLR in these states and markets to fall below the applicable MLR standard or result in additional rebates owed.

As a result of this examination, CCIIO recommended the following:

Recommendation #1

If and when the Company re-enters any of the markets that are subject to 45 CFR Part 158, the Company should adopt and implement procedures to ensure that all amounts are accurately reported in its MLR Annual Reporting Form in accordance with the applicable MLR Annual Reporting Form Filing Instructions, including reporting incurred claims in an accurate manner in accordance with §158.140 and reporting any applicable litigation reserves in Part 2, Line 2.13.

Company Response

"As noted as part of the Company's response to Examiner's Request Part B – Paid Claim Records Used for the MLR Form Part 2 on February 11th 2015, during the course of gathering the data for this MLR examination, an error was identified in our 2014 rebate calculation that impacted the Individual and Small Group markets. Some pharmacy claims for our Metallic sole proprietor plans were incorrectly allocated to the Small Group market instead of the Individual market. This resulted in $10,531 in additional rebate payments in the Small Group market for the states of GA and IL, and $30,266 in reduced rebates in the Individual market for the states of TX and IL, of which $27,425 belonged to TX. In March of 2015, we sent out the $10,531 in additional rebate checks for Small Group policyholders in GA and IL. Although we did not seek recoupment of the overpaid MLR rebates in the Individual market, we did use these corrected MLR reports as our basis and starting point to determine the impact of the average deductible factor corrections (Finding #4 below).

CCIIO Reply

CCIIO accepts the Company's response and the corrective action.

Recommendation #2

If and when the Company re-enters any of the markets that are subject to 45 CFR Part 158, the Company should review its methodologies and assumptions for developing the direct claims liability reported in the 3/31 column of its MLR Annual Reporting Form to be more consistent with the prior years' actual claims run-out through the most recent valuation date, including eliminating any unnecessary or inappropriate margin of conservatism for potential claims payments past March 31 of the year following the reporting year.

<u>Company Response</u>
"In July of 2015, prior to the December 2015 audit request, the company submitted a 2015 MLR Supplemental Document which included information that was intended to provide additional details regarding any differences from the 2014 filed Supplemental Health Care Exhibits (SHCE), previously filed MLR reports, and MLR instructions for 2014 contained in the 2014 MLR reporting. In this supplemental filing, the company explained its rationale. From that supplemental document:

> ***Contingent Benefits and Lawsuit Reserves***
> *For the 2014 Medical Loss Ratio Annual Reporting Form under Part 2, Line 2.13, it is indicated that the amounts for "Contingent benefit and lawsuit reserves for claims incurred in the MLR reporting year" are to be reported separately from other reserve items. Separating out reserves for lawsuits that are currently open will disclose sensitive, confidential and privileged information, especially when the data included in these reports are broken out by legal entity, market and state levels. It should also be noted that the NAIC had considered this disclosure in the 2011 NAIC Supplemental Health Care Exhibit (SHCE) and ultimately determined not to include lawsuit reserves as a detailed reporting item in any SHCE filings. In order to prevent the disclosure of such sensitive, confidential and privileged information, we have included lawsuit reserves in Part 2, Line 2.2a and Line 2.2b (Direct Claims Liability as of 12/31/14 and 03/31/15 respectively). This would be consistent with how the 2014 SHCE was completed and the other statutory reporting. Only the claims-related portions of lawsuits have been included. Any reserves related to costs associated with claims lawsuits for legal fees, court costs, pain and suffering damages, punitive damages, etc. have been excluded from any reserves included in the MLR calculations.*

Notwithstanding, The Company will report for future reporting years, its litigation reserve in Part 2, Line 2.13 (or as otherwise directed by the MLR Annual Reporting Form Filing Instructions)."

<u>CCIIO Reply</u>
CCIIO accepts the Company's response and the corrective action plan.

<u>Recommendation #3</u>
If and when the Company re-enters any of the markets that are subject to 45 CFR Part 158, the Company should adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150.

<u>Company Response</u>
"Based on guidance from CCIIO, expenses of $61,024 for 2013 and $99,793 for 2012 will be removed. Corresponding expenses had already been removed for 2014, based on verbal, informal guidance received through RRC in 2015 as part of the examination of the 2011-13 MLR years, as well as a brief reference by CMS on an MLR call. The Company's position continues to be that these costs were necessary for employees to perform QI activities and improve the quality of health care to its insureds, as follows:

As noted the Company's responses to "Examiner's verbal follow-up request dated 5/19/16 to JALIC-18 QIA follow-up #2" dated May 25, 2016, and "Examiner's written request dated October 4, 2016 to JALIC-25 QIA Concurrent Review Request" dated October 11, 2016, where the expenses related to concurrent activity was provided, as well as in previous responses, it is the position of the Company that all of the concurrent activities represented by the numbers set forth above qualify as quality improvement activities as defined in 45 CFR 158.150, as follows:

- Activities to improve quality outcomes were considered during the entire cycle of the hospitalization; not just pre-hospitalization (prospective). Our nurses performed a review of medications for safety and side effects; discussed treatment plans in coordination with the medical team at the facility they were working with; provided coaching and encouragement to comply with said treatment plan including feedback. Our nurses provided additional information and insight regarding the member, family dynamics, and relevant history not known by the current providers. This assisted in the development of a more comprehensive and effective plan of care. These are all quality measures under category #1—Improve Quality Outcomes, because these activities promoted positive outcomes by encouraging compliance with the treatment plan at the time such compliance was the most crucial.

- Our nurses also performed discharge planning and management of transition from one level of care to another (i.e. discharge to home or rehabilitation center or skilled nursing facility) in order to support recovery and avoid re-admission. This included coordination of care to the next level in the care continuum to help ensure hospital re-admissions were minimized, verifying follow-up appointments were made with the member's healthcare providers, providing encouragement to be compliant with their discharge protocol, including compliance and understanding of their medication regimen. These are all quality measures under category #2—Activities to prevent hospital re-admission.

- Our nurses also monitored the quality of care that was provided in order to evaluate the members' responses to the health care services provided and recommend any necessary adjustments thereto. Evidence based guidelines were utilized to review the services requested by the healthcare provider. Through medication reconciliation, the review may have identified potential adverse reactions or uncovered side effects that needed attention by the member's healthcare provider. These are all quality measures under category #3 – Improve Patient Safety and Reduce Medical Errors.

- Our nurses had discussions with members that included assistance with behavior modification, lifestyle changes and psycho social issues. Health coaching telephonic discussions were provided, which included scheduled touch points with the member and/or family to assist with maintaining or improving patient compliance to treatment (medication, outpatient activities/therapies, provider interactions), encourage lifestyle changes to improve health, and support for psycho social issues (verbal discussions, referrals to qualified providers, resource availability). These are all quality measures under category #4 – Wellness & Health Promotion Activities."

CCIIO Reply
While CCIIO acknowledges the Company's response and position, as noted in this report, §158.150(c)(7) requires that all concurrent utilization review must be excluded from the MLR calculation.

Recommendation #4
If and when the Company re-enters any of the markets that are subject to 45 CFR Part 158, the Company should adopt and implement procedures to ensure that it calculates the average deductible in accordance with §158.232(c), including correctly calculating the per person deductible for policies with a family deductible. Alternatively, in accordance with §158.232(c)(2), the Company may elect to use a deductible factor of 1.0 in lieu of calculating average deductibles.

Company Response
"Company Response to Recommendations 1-4: The Company does not intend to reenter the markets subject to 45 CFR Part 158; however, the Company acknowledges the above recommendations if re-entry were to occur."

CCIIO Reply
CCIIO accepts the Company's response.

Recommendation #5
The Company should re-file its 2014 MLR Annual Reporting Form to rectify the errors and reflect the findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable, including calculating any additional rebate amounts due to its enrollees. Any underpaid rebates calculated by the Company as a result of the findings herein, less the underpaid amounts the Company has already disbursed during this examination, should be paid as soon as possible but in no event later than sixty (60) days from the date of the Company's receipt of the Final MLR Examination Report.

Company Response
"As the Company had issued refunds related to Finding #1 and Finding #4 during the course of the examination, and that for Finding #3, the Company accepts the guidance from CCIIO to eliminate disallowed QI expenses from PY columns related to 2012 and 2013, the Company will re-file its 2014 MLR Annual Reporting Form and issue corresponding refunds in the amount of $4,046.35 to policyholders in two states in the individual market, and $956.49 to employers in one state in the small group market."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan. The 2014 MLR Annual Reporting Form should be filed with CCIIO within sixty (60) days of the Company's receipt of a Final MLR Examination Report.

The recommendations provided in this report should be shared with and adopted by, as applicable, any affiliated entities of the Company, its parent or subsidiaries, if any, that are subject to the MLR reporting and rebate requirements of 45 CFR Part 158.

CCIIO thanks the Company and its staff for its cooperation with this examination.

Appendix I – Recalculated MLRs for the 2014 Reporting Year

The three-year adjusted aggregated numerator and denominator, along with the resulting credibility-adjusted MLR and rebate liability for 2014, for state market segments in which the MLR changed as a result of the examination, are shown in the following tables. The differences between the amounts in the “As Recalculated” and “As Filed” rows reflect the net result of reallocating incurred claims related to certain sole proprietor policies from the small group market to the individual market, disallowed QIA expenses, and correction of the deductible factors.

Recalculated MLRs[6] and Rebates for the Individual and Small Group Markets for the 2014 Reporting Year

Arizona

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$4,715,439	$6,986,587	76.7%	$34,017
As Recalculated	$4,716,118	$6,986,587	76.5%	$36,078
Difference	$679	$0	(0.2%)	$2,062

Colorado

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$10,826,052	$13,100,088	88.4%	$0
As Recalculated	$10,823,177	$13,100,088	88.3%	$0
Difference	($2,875)	$0	(0.1%)	$0

Florida

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$4,357,671	$6,137,158	81.0%	$0
As Recalculated	$4,357,681	$6,137,158	80.8%	$0
Difference	$10	$0	(0.2%)	$0

Georgia

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,894,867	$8,759,941	85.3%	$0
As Recalculated	$6,916,408	$8,759,941	85.4%	$0
Difference	21,541	$0	0.1%	$0

[6] The MLRs shown may not equal the quotient of the numerator divided by the denominator due to the inclusion of a credibility adjustment, in accordance with §158.230.

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$10,283,119	$15,413,655	72.7%	$203,898
As Recalculated	$10,256,413	$15,413,655	72.5%	$209,484
Difference	($26,706)	$0	(0.2%)	$5,586

Illinois

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$17,974,376	$26,406,716	68.1%	$588,460
As Recalculated	$17,962,372	$26,406,716	68.0%	$593,405
Difference	($12,004)	$0	(0.1%)	$4,945

Indiana

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$10,891,336	$10,681,212	108.1%	$0
As Recalculated	$10,889,279	$10,681,212	108.0%	$0
Difference	($2,057)	$0	(0.1%)	$0

Iowa

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,120,392	$3,779,117	93.5%	$0
As Recalculated	$3,121,259	$3,779,117	93.3%	$0
Difference	$919	$0	(0.2%)	$0

Kansas

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,091,320	$7,086,363	79.7%	$2,869
As Recalculated	$5,089,937	$7,086,363	79.6%	$3,826
Difference	($1,325)	$0	(0.1%)	$956

Michigan

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,662,975	$9,769,184	73.5%	$148,896
As Recalculated	$6,660,663	$9,769,184	73.4%	$151,186
Difference	($2,312)	$0	(0.1%)	$2,291

Minnesota

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,114,613	$6,528,184	84.9%	$0
As Recalculated	$5,113,045	$6,528,184	84.7%	$0
Difference	($1,568)	$0	(0.2%)	$0

Montana

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$7,253,956	$9,921,979	79.6%	$6,893
As Recalculated	$7,251,434	$9,921,979	79.5%	$8,616
Difference	($2,377)	$0	(0.1%)	$1,723

Nebraska

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,771,573	$6,055,496	104.8%	$0
As Recalculated	$5,770,223	$6,055,496	104.6%	$0
Difference	($1,262)	$0	(0.2%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,336,895	$7,629,688	91.6%	$0
As Recalculated	$6,335,486	$7,629,688	91.5%	$0
Difference	($1, 409)	$0	(0.1%)	$0

North Carolina

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,892,503	$5,805,459	75.8%	$55,877
As Recalculated	$3,891,090	$5,805,459	75.7%	$57,207
Difference	($1,413)	$0	(0.1%)	$1,330

North Dakota

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$2,311,895	$3,015,324	86.3%	$0
As Recalculated	$2,314,257	$3,015,324	86.2%	$0
Difference	$2,421	$0	(0.1%)	$0

Ohio

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,118,457	$8,139,032	69.4%	$186,099
As Recalculated	$5,116,457	$8,139,032	69.2%	$189,610
Difference	($2,000)	$0	(0.2%)	$3,511

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$22,279,530	$27,818,488	84.3%	$0
As Recalculated	$22,274,390	$27,818,488	80.1%	$0
Difference	($5,140)	$0	(4.2%)	$0

Oklahoma

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$2,514,647	$3,559,874	81.8%	$0
As Recalculated	$2,513,785	$3,559,874	81.5%	$0
Difference	($862)	$0	(0.3%)	$0

Pennsylvania

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,169,157	$7,757,173	86.7%	$0
As Recalculated	$6,167,404	$7,757,173	86.5%	$0
Difference	($1,753)	$0	(0.2%)	$0

South Carolina

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,056,809	$4,369,002	80.4%	$0
As Recalculated	$3,055,762	$4,369,002	80.2%	$0
Difference	($1,047)	$0	(0.2%)	$0

Tennessee

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,644,972	$2,952,478	66.9%	$84,665
As Recalculated	$1,644,196	$2,952,478	66.7%	$85,958
Difference	($735)	$0	(0.2%)	$1,293

Texas

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$14,032,130	$20,150,739	74.7%	$242,251
As Recalculated	$14,150,330	$20,150,739	75.2%	$219,397
Difference	$118,200	$0	0.5%	($22,854)

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$104,211,366	$119,104,162	89.6%	$0
As Recalculated	$104,067,402	$119,104,162	89.5%	$0
Difference	($143,964)	$0	(0.1%)	$0

Wisconsin

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,969,735	$5,153,979	86.7%	$0
As Recalculated	$3,968,570	$5,153,979	86.5%	$0
Difference	($1,165)	$0	(0.2%)	$0

Wyoming

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,736,202	$6,854,550	92.8%	$0
As Recalculated	$5,736,559	$6,854,550	92.7%	$0
Difference	$446	$0	(0.1%)	$0