Final

Report on the

Medical Loss Ratio Examination

of

Blue Care Network of Michigan
(Southfield, Michigan)

for the

2019 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
200 Independence Avenue SW
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OVERSIGHT GROUP

December 1, 2024

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 Blue Care Network of Michigan (the Company) for the 2019 reporting year, including 2019, 2018, and 2017 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.]

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I. Executive Summary

The Center for Consumer Information & Insurance Oversight (CCIIO) has performed an examination of the 2019 Medical Loss Ratio (MLR) Annual Reporting Form for Blue Care Network of Michigan (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2019 MLR Annual Reporting Form contains some elements that are not compliant with the requirements of 45 CFR Part 158, and that impact consumer rebates.

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including: properly and accurately restating prior year incurred claims; properly reporting quality improvement activity expenses, earned premium, and reserves for experience rating refunds; properly allocating taxes and *de minimus* rebates; and, adopting and implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

The examination findings resulted in net changes to the Company's reported MLRs in the individual, small group, large group, and student health plans markets, increasing the Company's rebate liability for the 2019 MLR reporting year in the individual market by $1,571,991. In addition, due to the reduction in current year earned premium in the student health plans market, the recalculated rebate amount for that market was $239,775 less than that reported by the Company.

II. Scope of Examination

CCIIO examined the Company's 2019 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 (ACA), 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 regulatory fees, expended by an issuer 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 an issuer to provide rebates to consumers if it does not meet the applicable 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, 2017 through December 31, 2019, including 2017, 2018, and 2019 experience and claims run-out through March 31, 2020. 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, Corrective Actions, Company Responses, and CCIIO Replies section of this Report. The Company's implementation of the corrective actions was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's replies are 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 and proposed action plan for each corrective action in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
7	**Failure to accurately report incurred claims, as required by §158.140** – The Company improperly included in paid claims on its 2017, 2018, and 2019 MLR Annual Reporting Forms, expenses for quality improvement activities (QIA) that did not meet the definition of a clinical claim. For 2018 and 2019, the Company elected to report QIA expenses of 0.8 percent of earned premium in all markets, in lieu of reporting its actual QIA expenses. Therefore, the Company's actual, incurred QIA expenses for 2018 and 2019 expenses should not have also been reported in claims. For 2017, the Company reported actual QIA expenses, and as a result the QIA expenses improperly reported as paid claims were reclassified to QIA. As a result of this error, the Company overstated its three-year aggregate incurred claims on Part 3, Line 1.2, on its 2019 MLR Annual Reporting Form by $2,273,966, in the individual market, $1,525,167 in the small group market, $5,981,820 in the large group market, and $127,880 in the student health plans market. In addition, the Company understated its 2017 QIA on Part 3, Line 1.2, in the PY2 column of its 2019 MLR Annual Reporting Form by $826,871 in the individual market, $551,648 in the small group market, $2,448,491 in the large group market, and $45,893 in the student health plans market.
8, 9, 10, 11	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110** – The Company failed to properly restate its 2017 and 2018 incurred claims on Part 3, Line 1.2, in the prior year (PY2 and PY1) columns on its 2019 MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate incurred claims by $1,908,925 in the individual market,

	$1,228,037 in the small group market, $5,103,675 in the large group market, and $91,965 in the student health plans market. The Company incorrectly reported 2017 QIA expenses of $243,068 in the PY2 column on its 2019 MLR Annual Reporting Form, instead of the correct amount of $486,465. As a result, the Company understated its three-year aggregate QIA expenses by $243,397 in the student health plans market. The Company failed to report premium written-off on its 2017, 2018, and 2019 MLR Annual Reporting Forms. The Company also improperly reduced direct premium written by the amount of bad debt reserves on its 2017, 2018, and 2019 MLR Annual Reporting Forms. As a result of the net effect of these errors, the Company understated its three-year aggregate earned premium on its 2019 MLR Annual Reporting Form by $1,193,062 in the individual market, $159,034 in the small group market, $92,761 in the large group market, and overstated its earned premium by $444,573 in the student health plans market. The Company improperly included MLR rebates paid for the individual and student health plan markets in the reserve for experience rating refunds on its 2019 MLR Annual Reporting. This error did not impact the MLR calculation. The Company failed to report its community benefit expenditures (CBE) for its Medicare Advantage and Uninsured Plan lines of business on its 2019 MLR Annual Reporting Form. This error did not impact the MLR calculation. The Company failed to report *de minimis* rebates on its 2019 MLR Annual Reporting Form. This error did not impact the MLR calculation.
8, 10	**Failure to properly allocate expenses, as required by §158.170** – The Company improperly allocated its hospital settlement liability between markets, basing it on the pro rata proportion of member months, which did not yield the most accurate results, as required by §158.170. As a result of recalculating the allocation using the proportion of settled hospital claims for each market, the Company overstated its three-year aggregate incurred claims by $76,827 in the individual market, and understated its incurred claims by $732,075 in the small group market, $49,413 in the large group market, and $248,048 in the student health plans market. The Company failed to allocate its CBE to all the lines of business, as required by §158.170(b). As a result, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees by $23,993 in the individual market, $13,033 in the small group market, $63,115 in the large group market, and $1,165 in the student health plans market.
11	**Failure to properly allocate *de minimis* rebates consistent with the requirements of §158.243 –** The Company improperly allocated its *de minimis* rebates on a pro rata basis, rather than dividing them equally among

	enrollees receiving a rebate in that market. This error did not have any impact on the Company's MLR calculations.

These findings resulted in changes to the Company's reported 2019 MLRs for the individual, small group, large group, and student health plans markets. The recalculated MLR in the individual market fell below the MLR standard of 80%, resulting in an additional rebate liability of $1,571,991. The recalculated MLR in the student health plans market increased the Company's MLR and reduced its 2019 rebate liability by $239,775.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2019, are shown in the following tables. The differences between the amounts in the "As Filed" and "As Recalculated" rows reflect the net impact of the adjustments made to properly restate incurred claims, QIA expenses, earned premium, and community benefit expenditures.

Recalculated MLRs[1] and Rebates for the Individual, Small Group, Large Group, and Student Health Plans Markets for the 2019 Reporting Year

Michigan

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,645,156,877	$2,126,608,467	77.4%	$20,063,068
As Recalculated	$1,641,735,741	$2,127,825,522	77.2%	$21,635,059
Difference	($3,421,136)	$1,217,055	(0.2%)	$1,571,991

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,015,198,649	$1,228,159,183	82.7%	$0
As Recalculated	$1,013,730,465	$1,228,331,250	82.5%	$0
Difference	($1,468,184)	$172,067	(0.2%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$4,354,183,059	$5,087,241,337	85.6%	$0
As Recalculated	$4,345,596,073	$5,087,397,213	85.4%	$0
Difference	($8,586,986)	$155,876	(0.2%)	$0

Student Health Plans

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$32,018,516	$45,042,531	72.7%	$1,146,311
As Recalculated	$32,332,453	$44,599,124	74.1%	$906,536
Difference	$313,937	($443,408)	1.4%	($239,775)

[1] 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.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit health insurer domiciled in Michigan. The Company sells individual, group, and student health insurance policies in Michigan.

During the 2017, 2018, and 2019 MLR reporting years, the Company operated in the individual, small group, large group, and student health plans markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2019, the Company reported a total of 607,256 covered lives and $3,051,388,932 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158 and a total of 911,806 covered lives and $4,292,953,863 in direct earned premium from all health lines of business. The Company's lines of business not subject to the MLR regulations at 45 CFR Part 158 include Medicare Advantage plans and Medicare Supplement policies.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2019 were:

Officers

Name	Title
Kathryn G. Levine	President & Chief Executive Officer
Sheela R. Manyam	Secretary
James P. Kallas	Vice President of Finance & Treasurer
Marc D. Keshishian	Chief Medical Officer

Directors

Name	
Julie. A. Angott	Robert P. Kelch
Mark R. Bartlett	Melvin L. Larsen
William H. Black	Kathryn G. Levine
David Bing	Paula J. Manderfield
Kenneth R. Dallafior	Richard E. Posthumus
Shauna R. Diggs	Gregory A. Sudderth
Sarah W. Doyle	Mary A. Weaver
Valeriah A. Holman	

Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2019 MLR Annual Reporting Form were:

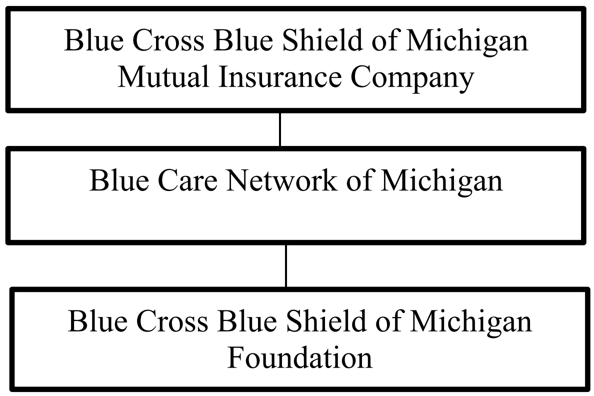
Name	Title
Kathryn Levine	CEO Attester

James Kallas CFO Attester

C. Ownership

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

Blue Care Network of Michigan
Organizational Chart as of December 31, 2019[2]



D. Agreements

As of December 31, 2019, the Company had entered into the following intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. An Inter-Company Service Agreement with Blue Cross and Blue Shield of Michigan.
2. A Master Services Agreement with Blue Cross Blue Shield of Michigan.

E. Reinsurance

During 2017, 2018, and 2019**,** the Company did not have any reinsurance agreements in effect that impacted the MLR reporting of its health insurance policies subject to the regulations at 45 CFR Part 158.

V. <u>Accounts and Records</u>

The Company's main administrative and financial reporting office is located at 20500 Civic Center Drive, Southfield, Michigan, 48076. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

[2] 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.

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 2017, 2018, and 2019 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2017, 2018, and 2019 MLR Annual Reporting Forms were filed by the due date.

The Company reported that in 2019, it met or exceeded the applicable MLR standard in the small group and large group markets, and thus was not required to pay rebates to its enrollees in those markets. The Company reported that it did not meet the MLR standard of 80% in the individual and student health plans markets, and paid rebates of $20,063,068 in the individual market and $1,146,311 in the student health plans market. Based on the errors found during the examination, the Company's MLRs for the 2019 reporting year were recalculated and resulted in an additional rebate liability of $1,571,991 in the individual market.

A. MLR Data

Market Classification

The Company adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2017-2019 reporting years. The samples of policies tested during the examination were assigned to the correct market classification.

Aggregation

Based upon the procedures performed, nothing 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 markets and lines of business, in accordance with §158.120.

Incurred Claims

Improper Reporting of Paid Claims

The Company improperly included in paid claims on Part 2, Line 2.1b on its 2017, 2018, and 2019 MLR Annual Reporting Forms, QIA expenses such as targeted coaching for diabetics, complex case management, and provider engagement coordination. These activities did not meet the definition of a clinical claim at §158.140, and therefore should not have been reported as paid claims. For 2018 and 2019, the Company elected the optional method of reporting QIA expenses of 0.8 percent[3] of earned premium in all markets in lieu of reporting the actual expenditures for activities that improve health care quality, in accordance with §158.221(b)(8) in effect at that time. Accordingly, for these years, $6,035,930 in QIA expenses that were improperly reported as paid claims were disallowed. For 2017, the Company reported actual expenditures for activities that improve health care quality, as opposed to the optional 0.8 percent method; thus, the

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[3] The HHS Notice of Benefit and Payment Parameters for 2019 Final Rule (83 FR 16930) amended §158.221 by adding paragraph (b)(8) to provide issuers with an option to report an amount equal to 0.8 percent of earned premium in the relevant state and market, in lieu of reporting actual QIA expenses, starting with the 2017 MLR reporting year. That provision was removed for 2020 and later MLR reporting years in the HHS Notice of Benefit and Payment Parameters for 2022 Final Rule (86 FR 24140), consistent with the United States District Court for the District of Maryland decision in *City of Columbus, et al. v. Cochran*, 523 F. Supp. 3d 731 (D. Md. 2021) vacating the 0.8 percent QIA reporting option in §158.221(b)(8).

$3,872,903 in QIA expenses were improperly reported as paid claims when they should have been reported as QIA on Part 3, Line 1.4, PY2 column of its 2019 MLR Annual Reporting Form. As a result of this error, the Company overstated its three-year aggregate incurred claims on Part 3, Line 1.2 on its 2019 MLR Annual Reporting Form by $2,273,966, in the individual market, $1,525,167 in the small group market, $5,981,820 in the large group market, and $127,880 in the student health plans market. In addition, the Company understated its 2017 QIA on Part 3, Line 1.2, in the PY2 column of its 2019 MLR Annual Reporting Form by $826,871 in the individual market, $551,648 in the small group market, $2,448,491 in the large group market, and $45,893 in the student health plans market.

Improper Reporting of Prior Year Incurred Claims
The Company failed to restate its 2017 and 2018 incurred claims on Part 3, Line 1.2, in the PY2 and PY1 columns on its 2019 MLR Annual Reporting Form for the individual, small group, large group, and student health plans markets. The Company failed to adjust its 2017 and 2018 hospital settlement accrual for subsequent development. According to the 2019 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 3, Line 1.2, in the PY2 and PY1 columns must include incurred claims restated as of 3/31 of the year following the MLR reporting year. Incurred claims initially reported for 2017 and 2018 should have been restated on Line 1.2 for the prior year columns for all applicable elements of adjusted incurred claims to reflect run-out through March 31, 2019. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2019 MLR Annual Reporting Form by $1,908,925 in the individual market, $1,228,037 in the small group market, $5,103,675 in the large group market, and $91,965 in the student health plans market.

Improper Allocation of Hospital Settlement Claims Liability
The Company's methodology for allocating its 2017, 2018, and 2019 hospital settlement liability did not comply with §158.170(b)(1), which requires allocations to be based on generally accepted accounting methods that are expected to yield the most accurate results. The Company allocated its hospital settlement liability to its markets for the 2017 – 2019 reporting years between markets based on the pro rata proportion of member months, rather than the proportion of hospital claims for each market. As a result of re-allocating the Company's hospital claims liability using the proportion of hospital claims for each market, the Company overstated its current year incurred claims reported on Part 3, Line 1.2, of its 2019 MLR Annual Reporting Form by $76,827 in the individual market, and understated its incurred claims by $732,075 in the small group market, $49,413 in the large group market, and $248,048 in the student health plans market.
Based upon the procedures performed, including the validation of a sample of incurred claims (as defined by §158.140) reported by the Company, other than the reporting errors noted above, nothing additional came to our attention that would indicate that the Company did not accurately report incurred claims.

Claims Recovered Through Fraud Reduction Efforts
The Company did not report any 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 (QIA)

Incorrectly Reporting QIA Expenses
The Company incorrectly reported its 2017 QIA expenses on its 2019 MLR Annual Reporting Form. The Company reported $243,068 in the PY2 column on its 2019 MLR Annual Reporting Form rather than $486,465, its actual QIA expenses as reported on its 2017 MLR Annual Reporting Form. According to the 2019 MLR Annual Reporting Form Filing Instructions, the 2017 QIA should be reported in the PY2 column on Part 3, Line 1.3. As a result, the Company understated its three-year aggregate QIA expenses on Part 3, Line 1.3, on its 2019 MLR Annual Reporting Form by $243,397 in the student health plans market.

In accordance with §158.221(b)(8), as in effect prior to the 2020 MLR reporting year, for the 2019 MLR reporting year the Company reported QIA expenses of 0.8 percent of earned premium in all markets, in lieu of reporting its actual expenditures on activities that improve health care quality, as defined in §158.150 and §158.151[4]. The examination adjustments to the Company's earned premium for the 2019 MLR reporting year resulted in a net increase to its 2019 adjusted earned premium, and consequently an increase in its QIA, on Part 3, Line 1.3, of $8,194 in the individual market, $838 in the small group market, $1,246 in the large group market, and $16 in the student health plans market.

Based upon the procedures performed, other than the other than the incorrect reporting of the 2017 QIA expense noted above, nothing additional came to our attention that would indicate that QIA expenses were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

Earned Premium

Improper Reporting of Earned Premiums
The Company failed to report premium write-offs on its 2017, 2018, and 2019 MLR Annual Reporting Forms in the individual, small group, large group and student health plans markets. According to the MLR Annual Reporting Form Filing Instructions, premium balances determined to be uncollectible and written off should be reported on Part 2, Line 1.7. The three-year aggregate amount of premium written-off that should have been reported on Part 2, Line 1.7, totaled $8,480,858 for all markets.

In addition, the Company improperly deducted bad debt reserves of $9,481,143 from direct premium written on Part 2, Line 1.1, on its 2017, 2018, and 2019 MLR Annual Reporting Forms, for the individual, small group, large group and student health plans markets. According to the MLR Annual Reporting Form Filing Instructions, premium balances that are determined to be uncollectible and written off should be reported on Part 2, Line 1.7, and should exclude reserves for bad debt.

As a result of the net effect of these errors, the Company understated its three-year aggregate earned premium on Part 3, Line 2.1, on its 2019 MLR Annual Reporting Form by $1,193,062 in

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§ 158.243(a)(2) defines a *de minimis* rebate in the individual market as one where the total rebate owed to the subscriber is less than $5.

the individual market, $159,034 in the small group market, and $92,761 in the large group market, and overstated its earned premium by $444,573 in the student health plans market.

Improper Reporting of Reserves for Experience Rating Refunds
The Company improperly reported 2019 MLR rebates of $17,784,191 paid for the individual and student health plans markets as reserves for experience rating refunds on Part 2, Line 1.5, on its 2019 MLR Annual Reporting Form. According to the 2019 MLR Annual Reporting Form Filing Instructions, Part 2, Line 1.5, must exclude any federal and state MLR rebates. The Company should have reported $0 on this line as there were no actual reserves for experience rating refunds. This error did not impact the MLR calculation as Part 2, Line 1.5, is not used in the MLR calculation.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that earned premium was not properly reported on a direct basis and that the data elements underlying the 2017, 2018, and 2019 premium reported on the Company's 2019 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Failure to Report Community Benefit Expenditures
The Company allocated its 2019 CBE only to the four markets subject to 45 CFR Part 158 and failed to allocate any amount to its Medicare Advantage plans, and its Uninsured Plans. The Company should have allocated and reported $8,446,215 for Medicare Advantage and $15,653,729 for Uninsured Plans on Part 1, Line 3.2c, on its 2019 MLR Annual Reporting Form. This error did not impact the MLR calculation since these lines of business are not subject to 45 CFR Part 158.

Improper Allocation of Community Benefit Expenditures
The Company failed to properly allocate CBE on its 2017 MLR Annual Reporting Form to its Medicare Advantage line of business. According to §158.170(b)(1), expense allocation(s) must be based on generally accepted accounting methods that are expected to yield the most accurate results. Because the CBE expenses benefit members from all lines of business, the related expenses should be allocated to all markets, including Medicare Advantage and Uninsured Plans. As a result of this error, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on Part 3, Line 2.2, on its 2019 MLR Annual Reporting Form by $23,993 in the individual market, $13,033 in the small group market, $63,115 in the large group market, and $1,165 in the student health market.

Based upon the procedures performed, other than the allocation and reporting errors noted above, nothing additional came to our attention that would indicate that the taxes and regulatory fees excluded from 2017, 2018, and 2019 earned premium on the Company's 2019 MLR Annual Reporting Form did not comply with §158.161 and §158.162, and were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

Federal Risk Adjustment Program
Based upon the procedures performed, nothing came to our attention that would indicate that the Company did not properly report the expected transfer amounts under the federal risk adjustment program for the 2019 benefit year, in compliance with §158.140(b)(4)(ii).

B. Credibility-Adjusted MLR and Rebate Amount Calculation

Based upon the procedures performed, the Company correctly applied the credibility adjustment in accordance with §§158.230-232 when it calculated and reported its MLRs. 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 reported that it did not meet the applicable MLR standards in the individual and student health plans markets for the 2019 reporting year. The Company used the correct procedures to calculate rebates of $20,063,068 in the individual market and $1,146,311 in the student health plans market for 2019. Based on its reported, final MLRs in all other markets, which exceeded the applicable MLR standard, the Company used the correct procedures to determine that no rebates were due in those markets. As detailed in this report, the examination identified errors in the data underlying the Company's MLRs and rebate calculations, resulting in changes to the Company's MLRs and rebate amounts.

C. Rebate Disbursement and Notice

Failure to Properly Report De Minimis Rebates
The Company failed to report *de minimis* rebates of $289 in the student health plans – individual market, on Part 4, Line 3.b, of its 2019 MLR Annual Reporting Form. According to the 2019 MLR Annual Reporting Form Filing Instructions, total *de minimis* rebates must be reported on Part 4, Line 3.b. This error did not impact the MLR calculation and rebate liability.

Improper Allocation of De Minimis Rebates to Enrollees
The Company improperly allocated its 2019 individual and student health plans markets *de minimis* rebates based on the pro rata amount that each enrollee that was receiving a rebate was to receive, rather than dividing the amount evenly among the enrollees that received a rebate, as required by §158.243. This error did not have any impact on total rebates paid for the 2019 reporting year. Determining the impact of this error on the rebate amount paid to each enrollee was beyond the scope of the examination.

According to its 2019 MLR Annual Reporting Forms, the Company reported MLR rebates owed in the individual and student health plans markets. Based on the procedures performed, other than the reporting errors noted above, the Company timely issued the rebates in accordance with §§158.240-244, and Rebate Notices 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 Michigan

Department of Insurance and Financial Services performed a financial examination of the Company in 2017 covering the period January 1, 2014 through December 31, 2017. There were no findings as a result of the financial examination.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2019 MLR Annual Reporting Form. No post-December 31, 2019 events were brought to CCIIO's attention.

VIII. Conclusion, Corrective Actions, Company Responses, and CCIIO Replies

CCIIO examined Blue Care Network of Michigan's 2019 MLR Annual Reporting Form to assess the Company's 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 2019 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2019 MLR Annual Reporting Form contained some elements that were not compliant with the requirements of 45 CFR Part 158. The examination findings and resultant recalculation of the Company's MLRs resulted in additional rebates due of $1,571,991 in the individual market.

As a result of this examination, consistent with § 158.402(e), CCIIO directs the Company to implement the following corrective actions:

Corrective Action #1
The Company must adopt and implement procedures to ensure it properly and accurately calculates and reports incurred claims in accordance with §158.140 and the MLR Annual Reporting Form Filing Instructions, including properly excluding QIA expenses.

Company Response
The Company has reviewed the exam findings and has implemented process changes for calculating incurred claims, including excluding QIA expenses.

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

Corrective Action #2
The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with §158.110 and the applicable MLR Annual Reporting Filing Instructions, including: properly and accurately restating prior year incurred claims and QIA expenses; properly reporting earned premium; properly reporting reserves for experience rating refunds; and, properly reporting community benefit expenditures and *de minimis* rebates.

Company Response
The Company has reviewed the exam findings and implemented process changes for aligning to the MLR Filing Instructions as described.

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

Corrective Action #3
The Company must adopt and implement procedures to ensure the allocation methodology used to allocate its hospital claims settlement liability and CBE to each market yields the most accurate results, in accordance with §158.170(b)(1).

Company Response
The Company has reviewed the exam findings and implemented process changes to update allocation methodology for hospital settlement liability and CBE as recommended by the audit team.

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

Corrective Action #4
The Company must adopt and implement procedures to ensure *de minimis* rebates are evenly distributed among enrollees as required by §158.243.

Company Response
The Company has reviewed the exam findings and implemented process changes to distribute *de minimis* rebates evenly instead of pro rating them.

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

Corrective Action #5
The Company must re-file its 2019 MLR Annual Reporting Form to rectify the errors and findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable, including calculating any additional rebates due to its enrollees. Any underpaid rebates calculated by the Company as a result of the findings herein 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
The Company has reviewed the exam findings and agrees with the proposed adjustments. The Company will complete a re-filing of the 2019 MLR form inclusive of the adjustments

referenced in this report and will process additional rebate payments within 60 days of the final report.

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

The corrective actions provided in this report should be shared with and adopted by, as applicable, any affiliated entities of the Company, such as its parent or subsidiaries, if any, that are similarly 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.