Final

Report on the

Medical Loss Ratio Examination

of

Health Care Service Corporation,
a Mutual Legal Reserve Company
(Chicago, Illinois)

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, D.C. 20201

CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR CONSUMER INFORMATION & INSURANCE OVERSIGHT

OVERSIGHT GROUP

May 24, 2021

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 Health Care Service Corporation, a Mutual Legal Reserve 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 Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.

Christina A Whitefield

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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 Health Care Service Corporation, a Mutual Legal Reserve 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 compliant with the requirements of 45 CFR Part 158 but that do not impact consumer rebates. We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including ensuring that activities and expenses reported as quality improvement activity (QIA) meet the regulatory definition of QIA and are adequately supported with sufficient documentation.

The examination findings and subsequent recalculation of the Company's 2014 MLRs did not result in any change to the Company's reported 2014 MLR for any of the states and markets in which it had health insurance coverage subject to 45 CFR Part 158 in effect. As the recalculated 2014 MLRs continue to exceed the applicable MLR standards, the findings did not result in additional rebates owed in any of the states or markets in which the Company 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 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, 2012 through December 31, 2014, including 2012, 2013, and 2014 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 the corrective actions appear after the corrective actions in the Conclusion, Corrective Actions, Company Responses, and CCIIO Replies section of this Report. The Company's implementation of the corrective action was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's reply 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 and proposed action plan for each finding in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
6	**Failure to maintain adequate documentation as required by §158.502 –** The Company did not provide sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definitions set forth in §158.150. There were no adjustments made to the Company's MLR calculations as a result of this finding.

These findings did not result in any changes to the Company's reported 2014 MLRs in any states or markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect. The three-year aggregate incurred claims and earned premium amounts, combined for all of the Company's five states (Illinois, Montana, New Mexico, Oklahoma, Texas) in each market, are shown in the following tables. The differences between the amounts in the "As Filed" and the "As Recalculated" rows reflect the adjustments made to reallocate QIA expenses.

Recalculated Aggregate Individual, 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	$9,618,878,255	$9,665,306,779	$0
As Recalculated	$9,618,878,255	$9,665,306,779	$0
Difference	$0	$0	$0

	Small Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$13,545,224,820	$16,581,326,108	$0
As Recalculated	$13,545,224,820	$16,581,326,108	$0
Difference	$0	$0	$0

	Large Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$33,789,598,833	$38,258,736,655	$0
As Recalculated	$33,789,598,833	$38,258,736,655	$0
Difference	$0	$0	$0

	Student Health Plans Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$168,531,655	$174,778,294	$0
As Recalculated	$168,531,655	$174,778,294	$0
Difference	$0	$0	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company operates as a mutual insurance company domiciled in the state of Illinois and is an independent licensee of the Blue Cross and Blue Shield Association (BCBSA). The Company sells medical and dental insurance coverage in the states of Illinois, Montana, New Mexico, Oklahoma, and Texas, operating in each state through their BCBSA-licensed plans. The Company's 2014 MLR Annual Reporting Form includes experience related to the Company's May 31, 2014 acquisition of Lovelace Health System, Inc. and Ardent Medical Services, Inc. as well as the July 31, 2013 acquisition of Blue Cross Blue Shield of Montana.

During the 2012, 2013, and 2014 MLR reporting years, the Company reported business in the individual, small group, large group, and student markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2014, the Company reported a total of 5,794,502 covered lives and $25,124,694,119 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 18,710,826 covered lives and $27,963,914,898 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, Medicaid, stop loss insurance, stand-alone dental and vision insurance, and short-term and long-term care insurance.

B. Management

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

Officers

Name	Title
Patricia A. Hemingway Hall	President & Chief Executive Officer
Kenneth S. Avner	Senior Vice President & Chief Financial Officer
Deborah L. Dorman-Rodriguez	Senior Vice President, Chief Legal Officer & Corporate Secretary

Directors

Name
Timothy L. Burke
Milton Carroll
Robert T. Clarke

Michelle L. Collins
James R. Corrigan
Tieman H. Dippel, Jr.
Dennis J. Gannon
Dianne B. Gasbarra
Patricia A. Hemingway Hall
Chase T. Hibbard
Thomas R. Hix
Elaine M. Mendoza
Marlin R. Perryman
Waneta C. Tuttle

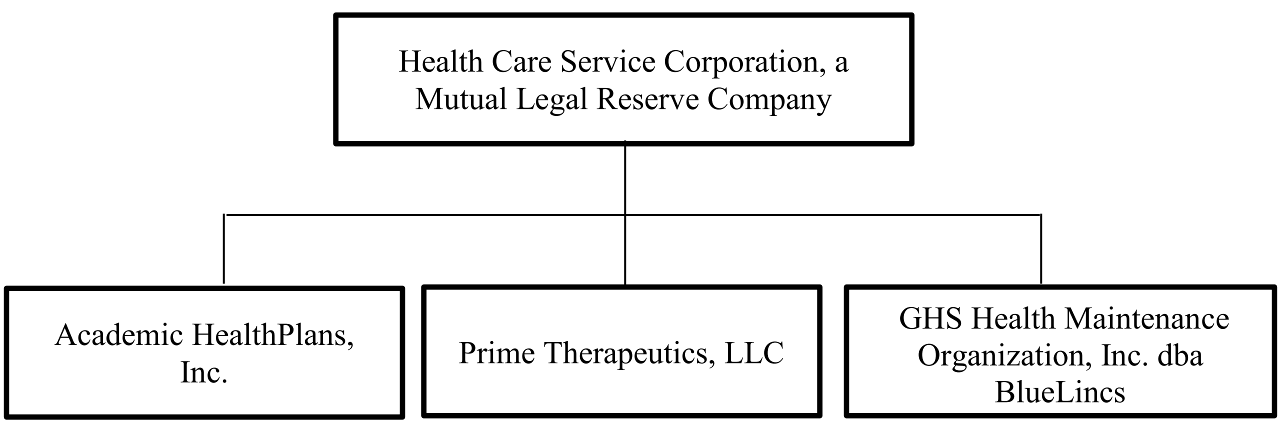
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2014 MLR Annual Reporting Form were:

Name	Title
Patricia A. Hemingway Hall	CEO Attester
Kenneth S. Avner	CFO Attester

C. Ownership

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

Health Care Service Corporation, a Mutual Legal Reserve Company
Organizational Chart[1] as of December 31, 2014



D. Agreements

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

[1] 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.

1. A Subsidiary Services Agreement with Academic HealthPlans, Inc.
2. A Federal Tax Allocation Agreement between the Company, as the Parent, and its various subsidiary entities.
3. A Pharmacy Benefit Management Agreement with Prime Therapeutics, LLC.
4. A Reinsurance Agreement for HMO business with GHS Health Maintenance Organization, Inc., d/b/a BlueLincs.

E. Reinsurance

During 2012, 2013, and 2014, the Company assumed health insurance coverage experience from GHS Health Maintenance Organization, Inc., d/b/a BlueLincs, according to an indemnity reinsurance agreement, in which the Company is responsible for 100 percent of BlueLinc's financial risk and takes on all of the administration of the block of business reinsured. The reinsurance agreement qualified as a 100% indemnity reinsurance and administrative agreement entered into and effective prior to March 23, 2010 and, as a result, the Company reported the experience from this transaction on the Company's 2014 MLR Annual Reporting Form, in accordance with the MLR Annual Reporting Form Instructions.

During 2012, 2013, and 2014, the Company did not have any other reinsurance agreements in effect that impacted the MLR reporting of its health insurance policies subject to the regulations at 45 CFR Part 158.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 300 East Randolph Street, Chicago, IL 60601. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted below, the Company did not comply with §158.502 with regard to maintaining adequate documentation and other evidence necessary to enable CCIIO to verify that the MLRs and rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not maintain documentation supporting certain QIA expenses reported on its MLR Annual Reporting Form for 2012, 2013, and 2014.

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 the due date.

During 2013 and 2014, the Company reported that it met or exceeded the applicable MLR standards in all states and markets in which it had business subject to the reporting and rebate requirements of 45 CFR Part 158 and thus was not required to pay rebates to its enrollees. The Company reported that it did not meet the MLR standard of 80% in the Oklahoma and Texas individual markets and the New Mexico and Oklahoma small group markets for 2012, and paid total rebates of $29,904,957 for 2012 in those states and markets.

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 2012-2014 reporting years. The samples of policies tested during the examination were assigned to the correct market classification.

Aggregation
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 states, markets, and lines of business in accordance with §158.120.

Incurred Claims
Based upon the procedures performed, including validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing came to our attention that would indicate that incurred claims were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts
Based on 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 a QIA in §158.150.

Insufficient Documentation of QIA
The Company did not maintain adequate documentation to support the expenses it reported as QIA. Section 158.502 requires an issuer to maintain all documents and other evidence necessary to enable CCIIO to verify compliance with the definitions and criteria set forth in 45 CFR Part 158 and that the MLR and any rebates owed are calculated and provided in accordance with this regulation.

The Company could not provide adequate time studies of employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA. The examiners performed alternative testing procedures, such as reviewing the titles and job descriptions, allocation percentages, and other information obtained from the Company related to employees whose salaries were reported as QIA expenses. Based on these alternative procedures, the examiners concluded that the qualifying nature of the activities and the allocation percentages used were reasonable, and therefore no adjustments were made to the Company's MLR calculations as a result of this finding.

Based upon the procedures performed, other than the items 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 markets, as required by §158.170.

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 the 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 market based on the pre-tax underwriting gain or loss, which the examination confirmed.

Federal Transitional Reinsurance, Risk Adjustment, and Risk Corridors 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 and risk corridors programs for the 2014 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 when the Company calculated and reported its MLRs, in accordance with §§158.230-158.232. 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.

Based on the Company's reported final MLRs, which exceeded the applicable standards in all states and markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect for 2013 and 2014, the Company used correct procedures to determine that no rebates were due for those years in those states and markets. The Company reported that it did not meet the MLR standard of 80% in the Oklahoma and Texas individual markets and the New Mexico and Oklahoma small group markets for 2012, and used correct procedures to calculate total rebates of $29,904,957 for 2012 in those states and markets.

C. Rebate Disbursement and Notice

According to its 2013 and 2014 MLR Annual Reporting Forms, the Company reported that it did not owe rebates in any state or market for 2013 and 2014, and therefore was not required to and did not issue any Notices of rebates for those years. Based upon the procedures performed, the Company timely issued rebates for 2012 in accordance with §§158.240-244 and Notices of rebates in accordance with §158.250 in the Oklahoma and Texas individual markets and the New Mexico and Oklahoma small group markets.

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 Illinois Department of Insurance performed a financial examination of the Company in 2015 covering the period January 1, 2010 through December 31, 2013. 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 2014 MLR Annual Reporting Form. No post-December 31, 2014 significant events were brought to CCIIO's attention.

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

CCIIO examined Health Care Service Corporation, a Mutual Legal Reserve Company's 2014 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 2014 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 effect of the examination findings and resultant recalculation of the Company's MLRs did not result in any rebates being owed in any of the states and markets in which it operated.

As a result of this examination, CCIIO directs the Company to implement the following corrective action:

Corrective Action #1

The Company must adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150 and that sufficient documentation exists to support such determinations, in accordance with §158.502. For salary-related expenses classified as QIA, this would include performing time studies of employee activities and/or other quantitative analyses of salary ratios to support allocating any such amounts to QIA, as only salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities should be considered as allowable QIA expenses.

Company Response

"Since 2014, HCSC has made enhancements to its collection process for QI data and reporting thereof. In the data collection process, a QIE supporting worksheet is required for each Cost Center with QI activities. The worksheet includes columns for QI activity, percent of time spent on each QI activity, QI dollars, a reference to the QI definitions and a comments section for any additional information. The QI worksheet is used by Cost Accounting to review and determine if all identified QI expenses meet the standards/criteria. The worksheet is also used by Cost Accounting to determine if the QI expense is allocating to the correct QI category. As a result of these enhancements, HCSC believes this issue has been remediated."

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

The corrective action 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.