Final

Report on the

Medical Loss Ratio Examination

of

Medica Insurance Company
(Minnetonka, Minnesota)

for the

2017 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

November 6, 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 Medica Insurance Company (the Company) for the 2017 reporting year, including 2017, 2016, and 2015 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 2017 Medical Loss Ratio (MLR) Annual Reporting Form for Medica Insurance Company (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2017 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: obtaining adequate information to accurately determine the market classification of group policies; ensuring that incurred claims are properly and accurately calculated and reported; ensuring that quality improvement activity (QIA) expenses meet the regulatory definition and are adequately supported with sufficient documentation; ensuring the accurate calculation and reporting of earned premiums; ensuring that federal income taxes are properly and accurately calculated and allocated; ensuring *de minimis* rebates are properly and accurately calculated and reported; making a good faith effort to follow-up on any unclaimed MLR 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, and large group markets for all seven states in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect. These changes affected the Company's rebate liability in the North Dakota individual market, where the examination findings resulted in a rebate liability that was $64,550 less than that reported by the Company.

II. Scope of Examination

CCIIO examined the Company's 2017 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, 2015 through December 31, 2017, including 2015, 2016, and 2017 experience and claims run-out through March 31, 2018.

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
8	**Failure to employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders –** The Company did not obtain from each group policyholder, at the time of initial application or policy renewal, the average total number of employees employed on the business days of the calendar year preceding the coverage effective date, as required, and therefore may not have correctly determined each group's size and market classification.
9, 11	**Failure to maintain adequate documentation, as required by §158.502 –** The Company did not maintain the documents and other records necessary to enable CCIIO to verify that the MLRs and any rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not obtain and maintain documentation and other evidence supporting its determination of each group policyholder's size. The Company did not provide sufficient evidence necessary to enable CCIIO to verify that total paid claims was accurately reported on Part 2, Line 2.1b of its 2017 MLR Annual Reporting Form. Due to the Company's inability to provide adequate supporting documentation, CCIIO disallowed the unsupported variances and adjustments to paid claims. As a result, the Company overstated its current year incurred claims by $901,965 in the individual market, and $932,144 in the small group market, while it understated its incurred claims by $1,011,683 in the large group market.

	The Company did not maintain the documents and other records necessary to enable CCIIO to verify that the expenses reported as QIA met the definition set forth in §158.150.
9, 10, 11	**Failure to accurately report incurred claims, as required by§158.140 –** The Company improperly included in paid claims payments based on the year each claim was paid, rather than the year the claim was incurred. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $198,498 in the individual market, $459,995 in the small group market, and $1,866,006 in the large group market. The Company improperly included in paid claims various payments to third party vendors for the vendors' administrative fees. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $2,000,287 in the individual market, $2,112,145 in the small group market, and $3,901,207 in the large group market.
10, 11, 14	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110 –** The Company improperly included some of its QIA expenses in its paid claims on Part 2, Line 2.1b on its 2015, 2016, and 2017 MLR Annual Reporting Forms, rather than on Part 3, Line 1.3, as required. This error did not have any effect on the Company's MLR calculations. The Company failed to restate its 2015 and 2016 incurred claims on Part 3, Line 1.2, in the prior year (PY2 and PY1) columns on its 2017 MLR Annual Reporting Form. As a result, the Company understated its three-year aggregate incurred claims by $5,134,059 in the individual market, and overstated its incurred claims by $1,554,640 in the small group market and by $671,714 in the large group market. The Company failed to report adjusted incurred claims in the PY2 and PY1 columns on Part 3, Line 1.1, on its 2015, 2016, and 2017 MLR Annual Reporting Forms. This error did not affect the MLR calculation. The Company improperly reported its direct claims liability on Part 2, Line 2.1b, rather than on Part 2, Line 2.2b, as required, on its 2017 MLR Annual Reporting Form. This error did not have any effect on the Company's MLR calculations. The Company improperly included in the direct claims liability reported on its 2015, 2016, and 2017 MLR Annual Reporting Forms, an explicit margin of safety for potential variations from its estimate of unpaid claims, and made other improper adjustments. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $1,978,500 in the individual market, and understated its incurred claims by $632,154 in the small group market and by $4,371,099 in the large group market.

	The Company failed to report the total amount of *de minimis* rebates on its 2017 MLR Annual Reporting Form. This error did not impact the MLR calculation.
11	**Reporting as QIA expenses that did not meet the definition of a QIA set forth in §158.150 –** The Company did not provide sufficient evidence that certain activities, transactions, or allocations selected for review met the definition of a QIA at §158.150. As a result, the Company overstated its three-year aggregate QIA reported on its 2017 MLR Annual Reporting Form by $1,189,896 in the individual market, $861,509 in the small group market, and $4,112,169 in the large group market.
12	**Failure to accurately report earned premium, as required by §158.130** – On its 2015, 2016, and 2017 MLR Annual Reporting Forms, the Company improperly deducted from premium written, revenue net of vendor fees for services that did not meet the definition of premium at§158.130. As a result, the Company understated its three-year aggregate earned premium on its 2017 MLR Annual Reporting Form by $1,657,573 in the large group market in three states. Due to several reporting and calculation errors, the Company incorrectly reported its direct premium written on its 2017 MLR Annual Reporting Form in the individual market. As a result of these errors, the Company understated its total, current year earned premium by $320,914 in the individual market. The Company incorrectly reduced its premium written on its 2017 MLR Annual Reporting Form, due to a recording error. As a result, the Company understated its current year earned premium by $570,779 in the Minnesota individual market.
13	**Failure to properly report taxes and regulatory fees, as required by §158.162 –** The Company improperly included federal taxes on investment income and realized capital gains in its federal income taxes reported on its 2015, 2015, and 2017 MLR Annual Reporting Forms. As a result of this error, the Company overstated its three-year aggregate taxes by $13,926,691 in all markets.
13	**Failure to allocate federal income taxes accurately, as required by §158.170 –** The Company improperly allocated federal income taxes between states and markets, basing it on the pro rata proportion of premiums, which did not yield the most accurate results, as required by §158.170. As a result of recalculating the allocation using the underwriting gain/(loss) for each state, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on its 2017 MLR Annual Reporting Form by $30,217,697 in the individual market, $7,845,677 in the small group market, and $21,897,351 in the large group market.
14	**Failure to properly allocate *de minimis* rebates in accordance with §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. This error did not impact total rebates paid for the 2017 reporting year.
14	**Failure to make a good faith effort to locate and deliver unclaimed rebates to enrollees, as required by §158.244 –** The Company's policies and procedures for locating and delivering rebates to enrollees did not include any follow-up with enrollees whose unclaimed rebates were less than $50. This error did not impact the MLR calculation.

The findings resulted in changes to the Company's reported MLRs in the individual, small group, and large group markets. In the North Dakota individual market, the recalculated MLR increased the MLR reported by the Company to above the applicable MLR standard, resulting in a rebate amount of $0, or $64,550 less than the amount the Company determined it owed and paid.

The three-year adjusted, aggregated incurred claims and earned premium amounts, for all seven states in which the Company had health insurance coverage in effect, along with the additional rebates owed for 2017, are shown in the following tables.

Recalculated Aggregate[1] Individual, Small Group, and Large Group Market Incurred Claims, Earned Premium, and Rebates for the 2017 Reporting Year

	Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$577,148,801	$557,611,095	$64,550
As Recalculated	$577,203,609	$558,502,788	$0
Difference	$54,808	$891,693	($64,550)

	Small Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$426,815,172	$490,024,903	$0
As Recalculated	$422,388,402	$490,024,903	$0
Difference	($4,426,770)	$0	$0

	Large Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$2,035,619,783	$2,438,746,644	$0
As Recalculated	$2,034,563,640	$2,440,404,217	$0
Difference	($1,056,143)	$1,657,573	$0

[1] See Appendix I to this report for the three-year adjusted, aggregate numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for the 2017 reporting year, for the states and markets in which the Company's MLR changed as a result of the examination findings.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health insurer domiciled in Minnesota. The Company sells individual and group health insurance policies in seven states.

During the 2015, 2016, and 2017 MLR reporting years, the Company operated in the individual, small group, and large group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2017, the Company reported a total of 261,686 covered lives and $1,528,871,404 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 422,166 covered lives and $2,447,222,807 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 stop-loss insurance and Medicare Part D prescription drug plan coverage.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2017 were:

Officers

Name	Title
John W. Naylor	President
James P. Jacobson	Secretary
Mark L. Baird	Treasurer

Directors

Name	
Rajesh K. Aggarwal	John M. Stanoch
John D. Buck	Earl D. Stratton
Peter H. Kelly	Esther M. Tomljanovich
Samuel H. Leon	Mary J. Twinem
John W. Naylor	

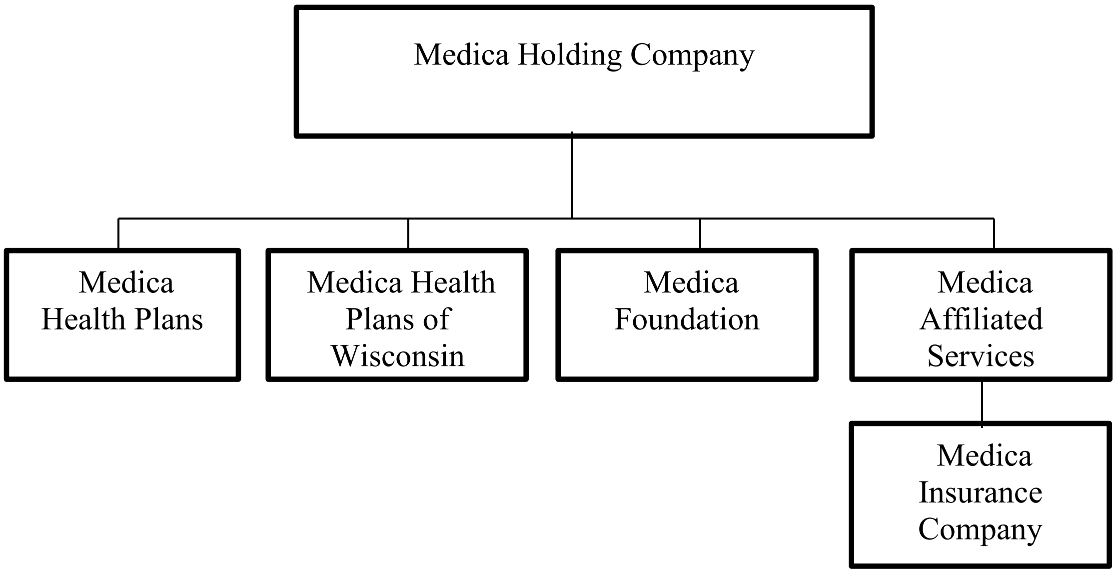
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2017 MLR Annual Reporting Form were:

Name	Title
John W. Naylor	CEO Attester
Mark L. Baird	CFO Attester

C. Ownership

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

Medica Insurance Company
Organizational Chart as of December 31, 2017[2]



D. Agreements

As of December 31, 2017, the Company had entered into the following intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:
1. An Administrative Services Agreement with Medica Health Plans
2. An Income Tax Sharing Agreement with Medica Holding Company and its affiliates.

E. Reinsurance

During 2015, 2016, and 2017, 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. Accounts and Records

The Company's main administrative and financial reporting office is located at 401 Carlson Parkway, Minnetonka, MN 55305. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted herein, the Company was not in compliance 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 provide sufficient evidence necessary to enable CCIIO to verify: its group size

[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.

determinations and market classifications, that paid claims were properly calculated and reported; and that the expenses reported as QIA met the definitions set forth in §158.150.

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 2015, 2016, and 2017 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2015, 2016, and 2017 MLR Annual Reporting Forms were filed by the due date.

The Company reported that it did not meet the MLR standard of 80% in the North Dakota individual market for 2017, and paid rebates of $64,550. The Company reported that it met the applicable MLR standard in all other states and markets, and thus was not required to pay rebates. Based on the errors found during the examination, the Company's MLRs for the 2017 reporting year were recalculated, and resulted in a decrease in the Company's rebate liability to $0 in the North Dakota individual market.

A. MLR Data

Market Classification

Incorrect Procedures for Determining Group Size and Market Classification
The Company adopted policies and procedures for determining group size and market classification that are inconsistent with the definitions in §158.103 applicable to the 2015-2017 reporting years. Section 158.103 employs the applicable definitions of Large Employer, Large Group Market, Small Employer, and Small Group Market in section 2791 (e) of the PHS Act. Section 2791(e) of the PHS Act requires that small and large group market classifications be based on the average total number of employees (ATNE) on the business days of the calendar year preceding the coverage effective date. The Company did not obtain the necessary information from group policyholders to correctly determine employer size, and therefore may have incorrectly determined the market classification of some group policies for the period covered by this examination.

The Company provided copies of then-recent group policyholder billing invoices, the original applications for group coverage with the total number of employees at the time of application (rather than the ATNE on the business days of the calendar year preceding the coverage effective date), copies of checks, and master policies. Since the Company based its determinations on the number of employees at the time of either the initial application or policy renewal, based on the available documentation, the examiners could not confirm whether the Company correctly determined group size, and consequently the market classification, of its group policies.

Due to the Company's use of the incorrect standard for determining group size and market classification, which could have impacted the market classification of some groups, we cannot conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

Failure to Maintain Adequate Documentation
The Company did not maintain adequate supporting documentation for the premium written amounts reported on its 2017 MLR Annual Reporting Form for some of the group policies tested. In addition to not applying the correct standard for determining group size, the Company could not provide evidence of the method it did use to determine group size (e.g., the application for coverage or an employer size survey) for 13 of the 31 small group policies and for 27 of the 29 large group policies selected for testing. 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 to verify that the MLR and any rebates owed were correctly calculated and disbursed.

Aggregation
Based upon the procedures performed, other than the possibly incorrect group size and market classification determinations noted above, nothing additional came to our attention that would indicate that the samples of policies, claims, and other aggregation-related reporting elements tested during the examination were not correctly assigned to the appropriate states, markets, and lines of business, in accordance with §158.120.

Incurred Claims

Improper Reporting of Incurred Claims
The Company did not maintain the documentation necessary to support the total paid claims reported on Part 2, Line 2.1b, of its 2017 MLR Annual Reporting Form. For the individual market, the Company could not explain or provide adequate documentation to support a variance between the paid claims detailed data file provided by the Company during the examination and the amount reported on its 2017 MLR Annual Reporting Form. For the small group and large group markets, the Company was unable to provide adequate documentation to support its adjustments reallocating behavioral health claims between states and markets. According to §158.502, an issuer must maintain all documents and other evidence necessary to enable CCIIO to verify that an issuer's claims experience is accurately reported, its MLRs are calculated accurately, and any rebates are calculated and disbursed in accordance with 45 CFR Part 158. Due to the Company's inability to provide adequate supporting documentation, the amount of unreconciled variances and unsupported adjustments to paid claims were disallowed. As a result, the Company overstated its current year incurred claims by $901,965 in the individual market and $932,144 in the small group market, and understated its incurred claims by $1,011,683 in the large group market.

The Company improperly included in paid claims on Part 2, Line 2.1b, of its 2015, 2016, and 2017 MLR Annual Reporting Forms, behavioral health claims based on the year the claim was paid, rather than the year incurred, as required by §158.140. For example, the Company included in 2017 incurred claims, claims that were paid in 2017, but that were incurred in 2016, 2015, or even in prior years. According to §158.140(a), incurred claims must be calculated and reported based on claims incurred only during the MLR reporting year and paid through March 31st of the following year. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $198,498 in the individual market, $459,995 in the small group market, and $1,866,006 in the large group market.

The Company improperly included in paid claims on Part 2, Line 2.1b, of its 2015, 2016, and 2017 MLR Annual Reporting Forms, administrative fees paid to third party vendors that do not meet the definition of clinical claims at §158.140. For example, the Company included payments made to vendors for services related to secondary networks, and for calculating and administering wellness program benefits. According to §158.140(b)(3)(ii), amounts paid to third party vendors for the vendor's administrative fees must not be included in incurred claims. As a result, the Company overstated the three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $2,000,287 in the individual market, $2,112,145 in the small group market, and $3,901,207 in the large group market.

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms, some of its QIA expenses. According to the 2017 MLR Annual Reporting Form Filing Instructions, QIA expenses must be reported on Part 1, Section 4 and Part 3, Line 1.3. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $678,477 in the individual market, $1,371,120 in the small group market, and $6,429,157 in the large group market, and understated its three-year aggregate QIA expenses by the same amounts in each market. This error did not impact its MLR calculations.

Improper Reporting of Prior Year Incurred Claims

The Company failed to restate its 2015 and 2016 incurred claims on Part 3, Line 1.2, in the PY2 and PY1 columns on its 2017 MLR Annual Reporting Form in the individual, small group, and large group markets. The Company failed to adjust its 2015 and 2016 incurred claims for subsequent development. According to the 2017 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 2015 and 2016 should have been restated on Line 1.2 for the prior year columns for all applicable elements of adjusted incurred claims reflecting run-out through March 31, 2018. As a result, the Company understated its three-year aggregate incurred claims by $5,134,059 in the individual market, and overstated its three-year aggregate incurred claims by $1,554,640 in the small group market and $671,714 in the large group market.

In addition, the Company improperly reported its incurred claims for prior years on Part 3, Line 1.1, PY2 and PY1 columns, of its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 1.1, in the PY2 and PY1 columns must be equal the amounts originally reported on the respective prior years' MLR Forms. This error did not impact the MLR calculation as Part 3, Line 1.1, is for informational purposes only and is not included in the MLR calculation.

Improper Reporting of Claims Liability

The Company improperly reported its direct claims liability in its paid claims on Part 2, Line 2.1b, of its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the 2017 MLR Annual Reporting Form Filing Instructions, claims liability for claims incurred during the MLR reporting year and unpaid as of 3/31 of the following year should be reported on Part 2, Line 2.2b. This error did not impact the Company's MLR calculations.

The Company also improperly included in its direct claims liability reported on its 2015, 2016, and 2017 Annual Reporting Forms adjustments for an explicit margin of safety for potential variations from its estimates of unpaid claims, and made other improper adjustments. According to the 2017 MLR Annual Reporting Form Filing Instructions, claims liabilities and reserves for MLR purposes should be the most accurate estimate of actual claims payments, and therefore should not be consistently overestimated, including due to the use of conservative margins for adverse deviation. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $1,978,500 in the individual market, and understated incurred claims by $632,154 in the small group market and $4,371,099 in the large group market.

Based upon the procedures performed, including validating a sample of incurred claims (as defined by §158.140), other than the possibly incorrect group size and market classification determination, and the other 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)

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 were calculated and provided in accordance with the regulation.

The largest category of QIA expenses reported by the Company was the salaries and related benefits of the employees whose roles and responsibilities included activities that it asserted met the definition of a QIA at §158.150. However, the Company could not provide any time studies of employee activities or otherwise substantiate the salary ratios it used to allocate salaries to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the titles and job descriptions of staff whose salaries were reported as QIA, the percent of staff time allocated to QIA, and other information obtained from the Company related to the employees whose salaries were reported as QIA expenses.

Improper Inclusion of Expenses for Activities That Do Not Qualify as QIA
As a result of performing the alternative testing procedures noted above, we determined that some of the job functions of the staff whose salaries were reported as QIA did not meet the regulatory definition of a QIA at §158.150. These included policy benefit determinations, cost containment, and various administrative functions. In addition, some cost centers either included activities that did not qualify as QIA, as defined at §158.150, or the Company was unable to provide adequate documentation that proved that the activities, and their associated costs, met the requirements for qualifying as a QIA. These included expenses for activities such as provider credentialing, technology assessment, risk management activities, review of provider coding

appeals, clinical training of staff, and claims audits. As a result, the Company overstated its three-year aggregate QIA expenses reported on Part 3, Line 1.3, on its 2017 MLR Annual Reporting Form by a total of $1,189,896 in the individual market, $861,509 in the small group market, and $4,112,169 in the large group market.

Based upon the procedures performed, other than the insufficient documentation for certain QIA expenses and the improper inclusion of expenses for activities that do not qualify as 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.

Earned Premium

Improper Reporting of Earned Premium
The Company improperly deducted from premium written on Part 2, Line 1.1, of its 2015, 2016, and 2017 MLR Annual Reporting Forms, non-premium policyholder revenue that did not meet the definition of premium at §158.130. The revenue was from fees the Company charged those policyholders who purchased an ancillary service -receiving assistance from the Company's vendor in comparing and selecting a policy - that was not required by the Company in order for a policyholder to receive coverage. The Company netted against this non-premium revenue the fees it paid the vendor for providing the coverage assistance, and then deducted the net sum from the premium it reported. Because the vendor's charges exceeded the revenue from policyholders for the coverage assistance, its premium adjustment reduced its premium written. According to §158.130(a), earned premium is all monies paid by a policyholder or subscriber as a condition of receiving coverage, including any fees or other contributions associated with the health plan. As a result of this error, the Company understated its three-year aggregate earned premium on its 2017 MLR Annual Reporting Form by the net amount of $1,657,573 in the large group market in Minnesota, North Dakota, and Wisconsin.

Due to several reporting and calculation errors, the Company incorrectly reported its direct premium written on Part 2, Line 1.1, on its 2017 MLR Annual Reporting Form, in the individual market, in Iowa, Minnesota, and Nebraska., For example, the Company erred when it calculated the adjustments that were necessary to properly report premium written for policies that included coverage in two calendar years. This resulted in a $210,914 understatement of premium. The Company also improperly reported a $110,000 MLR rebate accrual as an adjustment to premium in the North Dakota individual market. According to §158.130(b)(3), premium should not be adjusted to exclude any MLR rebates paid based on an issuer's MLR. As a result of the net effect of these errors, the Company understated its current year earned premium on its 2017 MLR Annual Reporting Form by a total of $320,914 in the individual market in those states.

Due to a recording error, the Company also incorrectly reduced its premium written on Part 2, Line 1.1, of its 2017 MLR Annual Reporting Form by $570,779. The Company informed us that it had identified the error prior to filing its 2017 MLR Annual Reporting Form, but incorrectly posted the correcting adjustment to an affiliated entity's written premium. As a result, the Company understated its current year earned premium by $570,779 in the Minnesota individual market.

Based upon the procedures performed, other than the possibly incorrect group size and market classification determination, and the other 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 2015, 2016, and 2017 premium reported on the Company's 2017 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Improper Reporting of Investment Income and Capital Gains Tax
The Company improperly included the federal taxes on its investment income and capital gains in its federal income taxes reported on Part 1, Line 3.1a, of its 2015. 2016, and 2017 MLR Annual Reporting Forms. According to §158.162(a)(2), federal taxes on investment income and capital gains must not be excluded from premium in the MLR calculation. As a result of this error, the Company overstated its three-year aggregate taxes by $13,926,691 in all markets.

Improper Allocation of Federal Income Taxes
The Company's methodology for allocating its 2015, 2016, and 2017 federal income taxes 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. According to the 2017 MLR Annual Reporting Form Filing Instructions, Part 1, Section 3, pre-tax underwriting gain/(loss) is the most appropriate basis for allocating income taxes. The Company indicated that it allocated federal income taxes between its states based on premium, rather than pre-tax underwriting gain or loss. As a result of re-allocating the Company's federal income tax using the underwriting gain/(loss) for each state and market, and correcting the amount by excluding taxes on investment income and capital gains, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees by $30,217,697 in the individual market, $7,845,677 in the small group market, and $21,897,351 in the large group market.

Based upon the procedures performed, other than the incorrect allocation of income taxes and the failure to disclose the allocation methods noted above, nothing additional came to our attention that would indicate that the taxes, licensing, and regulatory fees excluded from 2015, 2016, and 2017 earned premium on the Company's 2017 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 states and markets, as required by §158.170 and in accordance with its tax sharing agreement.

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 2017 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 and 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 MLR standard of 80% in the North Dakota individual market for the 2017 reporting year. The Company used the correct procedures to calculate individual market rebates of $64,550 in North Dakota. Based on its reported, final MLRs in all other markets, which exceeded the applicable standard for 2017, 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 2017 MLRs and rebate amounts.

C. Rebate Disbursement and Notice

Improper Allocation of De Minimis Rebates to Enrollees
The Company improperly allocated its 2017 individual market *de minimis* rebates,[3] basing them 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 2017 reporting year. Determining the impact of this error on the rebate amount paid to each enrollee was beyond the scope of the examination.

Improper Reporting of De Minimis Rebates
The Company failed to report the total amount of *de minimis* rebates on Part 4, Line 3.b, on its 2017 MLR Annual Reporting Form, as required by the MLR Annual Reporting Form Filing Instructions. This error did not impact the MLR calculations.

Lack of Good Faith Effort to Locate Enrollee for Unclaimed Rebates
The Company's policies and procedures for locating and delivering rebates do not comply with §158.244. Section 158.244 requires an issuer to make a good faith effort to locate and deliver unclaimed rebates to enrollees. The Company sent follow-up letters to enrollees with unclaimed rebates, but only if those rebates were at least $50, and it did not conduct any follow-up for unclaimed rebates that were less than $50.

According to its 2017 MLR Annual Reporting Form, the Company reported that it owed rebates in the individual market. Based upon the procedures performed, the Company timely issued rebates in accordance with §§158.240-242 and Rebate Notices in accordance with §158.250, but as noted above, did not comply with §158.243 and §158.244.

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 Minnesota Department of Commerce performed a financial examination of the Company in 2018-2019 covering the period January 1, 2015 through December 31, 2017. The financial examination

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[3] § 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.

resulted in two findings, neither of which impacted the Company's federal MLR calculations or reporting.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2017 MLR Annual Reporting Form.

On April 27, 2020, the Supreme Court ruled that section 1342 of the PPACA created an enforceable government obligation to pay issuers risk corridors amounts as calculated under the risk corridors formula.[4] In 2020, the Company recovered previously unpaid amounts for risk corridors for the 2015 and 2016 benefit years, but reported different amounts than the amounts recovered on its 2015-2017 MLR Annual Reporting Forms.[5] On December 30, 2020, CCIIO issued guidance providing instructions to issuers on how they should revise their 2015-2018 MLR Annual Reporting Forms to reflect risk corridors payment amounts recovered as a result of the litigation, and to pay any rebates, or additional rebates, to enrollees, if required.[6] The previously unpaid amounts for risk corridors recovered by the Company for the 2015 and 2016 benefit years impacted its 2017 MLR Annual Reporting Form because the 2015 and 2016 data is included on that Form.[7] The amounts described in this examination report incorporate the Company's revisions related to the recovered risk corridors amounts.

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

CCIIO examined Medica Insurance Company's 2017 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 2017 MLR Annual Reporting Form contained some elements that were not compliant with the requirements of 45 CFR Part 158. Based on the adjustments made as a result of the examination findings, the Company overpaid rebates by $64,550 in the North Dakota individual market.

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

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[4] *Maine Community Health Options v. United States*, 140 S. Ct. 1308), 590 U.S. __ (2020).
[5] https://www.regtap.info/uploads/library/RC_CSRandMLR_091516_v1_5CR_091516.pdf. See also, MLR Annual Reporting Form Instructions for 2015 through 2018, available at https://www.cms.gov/cciio/Resources/Forms-Reports-and-Other-Resources/index#Medical_Loss_Ratio.
[6] Center for Consumer Information & Insurance Oversight, Insurance Standards Bulletin Series – INFORMATION, Treatment of Risk Corridors Recovery Payments in the Medical Loss Ratio and Rebate Calculations (Dec. 30, 2020), available at https://www.cms.gov/files/document/mlr-guidance-rc-recoveries-and-mlr-final.pdf.
[7] The amount of previously unpaid risk corridors recovered by the Company for the 2015 and 2016 benefit years may have also impacted its 2015 and 2016 MLR Annual Reporting Forms because that data is also included on those forms.

Corrective Action #1
The Company must adopt and implement procedures to ensure that it obtains and maintains accurate information from its employer groups at the time of policy application or at renewal in order to determine the correct group size and market classification of its group policies, consistent with the definitions in section 2791(e) of the PHS Act and the applicable requirements of 45 CFR Part 158 and related technical guidance. This should include, but not be limited to, obtaining and maintaining accurate documentation of the average total number of employees for the calendar year preceding the coverage effective (or renewal) date.

Company Response
The Company acknowledges this finding and is implementing procedures to ensure proper documentation in the future. The company validates group size when accepting new business and reassesses at the time of renewal. These modifications of determining and reporting group size will comply with the definitions in §144.103 and §158.103.

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

Corrective Action #2
The Company must adopt and implement a comprehensive MLR records maintenance program under which it maintains all documentation and evidence necessary to enable CCIIO to verify compliance with each element in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should include adequately storing documentation related to the number of employees of group policyholders, as well as maintaining evidence of premium written.

The records maintenance program should also include creating and retaining documentation, as may be necessary, to enable CCIIO to verify the proper calculation and reporting of paid claims, and that expenses included in QIA are for activities that meet the definition of QIA. For salary-related expenses classified as QIA, this includes performing time studies of employee activities 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 are allowable QIA expenses.

Company Response
The Company acknowledges this finding and is actively working to implement enhanced policies and procedures for maintaining all documentation and evidence necessary to enable CCIIO to verify compliance with §158.502, including maintaining records for the required time period and detail of expenses that meet the definition of QIA expenses in §158.150.

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

Corrective Action #3
The Company must adopt and implement procedures to ensure it properly and accurately calculates and reports incurred claims on its MLR Annual Reporting Form. in accordance with

§158.140, including ensuring that paid claims are reported based on the incurred date and not on the paid date, and that expenses for secondary network savings and administrative fees paid to third party vendors are not included in incurred claims.

Company Response
The Company acknowledges this finding and has adjusted its data files to exclude secondary network savings and administrative fees to third party vendors and ensure claims are reported based on the incurred date and not the paid date, as required by §158.140.

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

Corrective Action #4
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 Form Filing Instructions, including ensuring that it: properly reports paid claims; properly restates prior year incurred claims; and properly reports direct claims liability and *de minimus rebates*.

Company Response
The Company acknowledges this finding and has adjusted its process to include incurred claims in PY1 & PY2 in accordance with§158.140(a) as well as maintaining documentation to support total paid claims in accordance with §158.502.

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

Corrective Action #5
The Company must implement procedures to ensure that any expenses classified as QIA meet the requirements at §158.150, and that sufficient documentation exists to support such determination. The Company must perform additional analyses to adequately differentiate between activities that do and do not qualify as QIA, and perform additional quantitative analyses to ensure that the appropriate percentage of each activity or transaction that qualifies as a QIA under §158.150 is reported on its MLR Annual Reporting Form.

Company Response
The Company acknowledges this finding and is actively working to implement enhanced policies and procedures for evaluating and determining what qualifies as QIA expenses in accordance with §158.150.

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

Corrective Action #6
The Company must adopt and implement procedures to ensure that it properly and accurately reports earned premium in accordance with §158.130, including ensuring written premium is calculated and reported in an accurate manner.

Company Response
The Company acknowledges this finding and has adjusted its premium revenue to exclude the deduction of ancillary services that did not meet the definition of premium in accordance with §158.130. The Company also adjusted its data files to properly exclude MLR rebate accruals from premium reporting in accordance with §158.130(b)(3).

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

Corrective Action #7
The Company must adopt and implement procedures to ensure that it reports its taxes, licensing, and regulatory fees in compliance with §158.162, including accurately calculating federal income taxes.

Company Response
The Company must adopt and implement procedures to ensure that it reports its taxes, licensing, and regulatory fees in compliance with §158.162, including accurately calculating federal income taxes.

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

Corrective Action #8
The Company must adopt and implement procedures to ensure the methodology used to allocate taxes expenses to each state and market yields the most accurate results, in accordance with §158.170(b)(1).

Company Response
The Company acknowledges this finding and has adjusted the allocation of tax expenses to yield more accurate results in accordance with §158.170(b)(1).

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

Corrective Action #9
The Company must adopt and implement procedures to ensure *de minimis* rebates are allocated equally among enrollees, as required by §158.243.

Company Response
The Company acknowledges this finding and in the event of rebates, the Company has implemented changes to allocate de minimis rebates by dividing the amount evenly among the enrollees that received a rebate as required by §158.243.

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

<u>Corrective Action #10</u>
The Company must adopt and implement procedures to ensure a good faith effort is made to locate and deliver all unclaimed rebates to enrollees in accordance with the requirements of 158.244, regardless of the rebate amount.

<u>Company Response</u>
The Company must adopt and implement procedures to ensure a good faith effort is made to locate and deliver all unclaimed rebates to enrollees in accordance with the requirements of 158.244, regardless of the rebate amount.

<u>CCIIO Reply</u>
CCIIO accepts the Company's 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.

IX. Appendix I – Recalculated MLRs.[8] And Rebates for the 2017 Reporting Year

The three-year adjusted, aggregate numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2017, for the states and markets in which the MLRs changed as a result of the examination, 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 aggregate incurred claims and to properly restate incurred claims, QIA expenses, earned premium, and federal income taxes. The amounts in the “As Recalculated” row for the individual and small group markets also include the revised amounts of the recovered risk corridors payment that the Company received, and which is described in the Subsequent Events section of this report.

Iowa

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$113,784,911	$100,606,383	115.8%	$0
As Recalculated	$111,648,950	$112,588,634	101.9%	$0
Difference	($2,135,961)	$11,982,251	(13.9%)	$0

Kansas

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$49,862,693	$44,472,660	116.0%	$0
As Recalculated	$49,405,437	$49,140,280	104.4%	$0
Difference	($457,256)	$4,667,620	(11.6%)	$0

Minnesota

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$83,398,811	$80,442,980	105.8%	$0
As Recalculated	$82,618,376	$92,666,443	91.3%	$0
Difference	($780,435)	$12,223,463	(14.5%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$253,718,361	$293,012,441	87.4%	$0
As Recalculated	$250,510,796	$293,289,089	86.2%	$0
Difference	($3,207,565)	$276,648	(1.2%)	$0

[8] 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.

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,796,667,328	$2,044,674,250	87.9%	$0
As Recalculated	$1,790,886,520	$2,064,090,570	86.8%	$0
Difference	($5,780,808)	$19,416,320	(1.1%)	$0

Nebraska

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$271,004,474	$285,799,752	96.4%	$0
As Recalculated	$264,054,590	$289,678,595	92.8%	$0
Difference	($6,949,884)	$3,878,843	(3.6%)	$0

North Dakota

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,642,352	$7,983,784	77.0%	$64,550
As Recalculated	$5,603,086	$6,769,523	89.1%	$0
Difference	($39,266)	($1,214,261)	12.1%	($64,550)

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$52,522,197	$61,350,302	88.0%	$0
As Recalculated	$51,738,497	$63,122,117	84.3%	$0
Difference	($783,700)	$1,771,815	(3.7%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$71,670,144	$76,835,711	95.4%	$0
As Recalculated	$71,838,261	$78,246,711	94.0%	$0
Difference	$168,117	$1,411,000	(1.4%)	$0

South Dakota

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$43,168,491	$44,189,114	100.5%	$0
As Recalculated	$43,305,577	$45,467,223	98.0%	$0
Difference	$137,086	$1,278,109	(2.5%)	$0

Wisconsin

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$4,317,280	$5,453,653	87.8%	$0
As Recalculated	$4,125,860	$5,025,914	90.7%	$0
Difference	($191,420)	($427,739)	2.9%	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$102,470,815	$113,266,941	92.7%	$0
As Recalculated	$99,438,948	$119,067,698	85.8%	$0
Difference	($3,031,867)	$5,800,757	(6.9%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$133,223,804	$149,734,623	91.0%	$0
As Recalculated	$133,531,095	$151,184,508	90.4%	$0
Difference	$307,291	$1,449,885	(0.6%)	$0