Final

Report on the

Medical Loss Ratio Examination

of

Physicians Health Plan
(Lansing, Michigan)

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

May 28, 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 Physicians Health Plan (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.

Christina A. Whitefield

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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 Physicians Health Plan (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, 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: obtaining adequate information to accurately determine the market classification of group policies; properly reporting incurred claims and restating prior years' incurred claims; ensuring that expenses for quality improvement activities meet the regulatory definition and are supported with sufficient documentation; and properly reporting earned premium, taxes, and regulatory fees. In addition, the Company must implement policies and procedures to ensure the MLR Annual Reporting Form is completed in accordance with the MLR Annual Reporting Form Filing Instructions.

To the extent that the findings could be quantified, the recalculation of the Company's 2017 MLR resulted in net decreases to its reported MLRs for the individual, small group, and large group markets, but did not result in any rebates being due to its enrollees in any of these markets.

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
7	**Failure to employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders –** The Company did not correctly 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, and therefore may not have correctly determined each group's size and market classification.
8, 9, 10, 11	**Failure to submit an MLR form in the manner prescribed by the Secretary, as set forth in §158.110 –** The Company incorrectly restated its 2015 and 2016 incurred claims in the prior year columns (PY2 and PY1 columns of Part 3, Line 1.2) on its 2017 MLR Annual Reporting Form for the individual, small group, and large group markets. As a result, the Company overstated its three-year aggregate incurred claims by $1,030,132 in the individual market, $576,565 in the small group market, and $5,147,341 in the large group market. The Company improperly included adjustments for the federal risk adjustment transfer amounts for the individual and small group markets in its premium written reported on its 2017 MLR Annual Reporting Form. As a result, the Company understated its current year earned premium by $3,159,809 in the individual market and $2,343,194 in the small group market. The Company inappropriately reduced earned premium for bad debt reserves in the large group market in the PY2 and PY1 columns of Part 3, Line 2.1 on its 2017 MLR Annual Reporting Form. As a result, the Company understated its three-year aggregate earned premium by $75,000 in the large group market.

	The Company improperly reported federal risk adjustment user fees on Part 1, Line 3.1b of its 2017 MLR Annual Reporting Form rather than including the fees on Part 1, Line 3.3b, as required. This error did not have any impact on the Company's MLR calculations.
8	**Failure to accurately report incurred claims, as required by §158.140 –** The Company improperly included in its paid claims the amount it paid to its pharmacy benefit manager (PBM) that exceeded the total amount the PBM reimbursed pharmacies for prescriptions filled for the Company's enrollees, on its 2015, 2016, and 2017 MLR Annual Reporting Forms. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $292,256 in the individual market, $1,106,273 in the small group market, and $9,115,880 in the large group market. The Company failed to properly report capitation payments on its 2015, 2016, and 2017 MLR Annual Reporting Forms. As a result of this error, the Company understated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $379,866 in the individual market and $2,232,659 in the small group market, and overstated its incurred claims by $540,927 in the large group market.
9	**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 expenses reported as QIA met the definition set forth in §158.150.
9	**Reporting of expenses for quality improvement activities (QIA) that did not meet the definition of QIA, as set forth in §158.150 –** The Company improperly included in QIA certain expenses for activities that did not meet the definition of QIA on its 2017 MLR Annual Reporting Form. As a result of this error, the Company overstated its three-year aggregate QIA by $341,623 in the individual market, $433,895 in the small group market, and $2,636,711 in the large group market.
10	**Failure to accurately report earned premium in accordance with §158.130 –** Due to various reporting and calculation errors, the Company incorrectly reported its direct written premium on its 2017 MLR Annual Reporting Form. As a result of the net effect of these errors, the Company understated its current year earned premium by $1,822,830 in the individual market, $166,262 in the small group market, and $1,367,205 in the large group market.

The examination findings resulted in net decreases to the Company's reported MLRs in the individual, small group, and large group markets. Due to the Company's use of the incorrect standard for determining group size and market classification, we cannot, at this time, conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR and rebates for 2017, 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: restate incurred claims for prior years' development; correct the amounts reported for prescription drug and capitation costs; remove expenses that did not qualify as QIA; and, to correct the inaccurate reporting of earned premium.

Recalculated MLRs[1] and Rebates for the Individual, Small Group and Large Group Markets for the 2017 Reporting Year

Michigan

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$36,512,667	$38,487,326	97.4%	$0
As Recalculated	$35,228,523	$43,469,965	83.6%	$0
Difference	($1,284,145)	$4,982,639	(13.8%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$52,161,242	$60,118,589	89.1%	$0
As Recalculated	$52,277,168	$62,628,045	85.8%	$0
Difference	$115,926	$2,509,456	(3.3%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$396,763,569	$430,408,860	92.2%	$0
As Recalculated	$379,322,710	$431,851,065	87.8%	$0
Difference	($17,440,859)	$1,442,205	(4.4%)	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit health maintenance organization domiciled in Michigan, and sells individual and group comprehensive healthcare services, including medical and dental services in many Michigan counties.

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 34,779 covered lives and $188,256,748 in direct earned premium for policies subject to the MLR reporting and rebate

[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.

requirements under 45 CFR Part 158. The Company does not write any lines of business not subject to the MLR regulations at 45 CFR Part 158.

B. Management

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

Officers

Name	Title
James Butler III	Chairperson
Dennis J. Reese	President
George Schneider	Chief Financial Officer, Chief Operations Officer
Thomas Hofman	Secretary and Treasurer

Directors

Name	
James Butler III, Chair	Shalimar Maynard
Diana R. Algra	Deborah Muchmore
Brittany Bogan	Merrita Proctor
April Clobes	Dennis J. Reese
Timothy Hodge	Paula Reichle
Thomas Hofman	Dennis Swan
David Kaufman	James Tischler

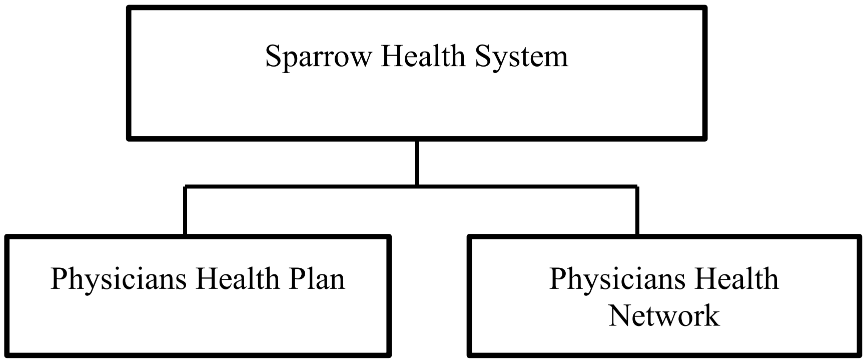
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2017 MLR Annual Reporting Form were:

Name	Title
Dennis J. Reese	CEO Attester
George Schneider	CFO Attester

C. Ownership

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

Physicians Health Plan
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. A Service Agreement with Physicians Health Network.
2. An Employee Lease and Payroll Services Agreement with Sparrow Health System.

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 1400 East Michigan Avenue, Lansing, Michigan. 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 adequate documentation supporting certain QIA expenses reported on its 2017 MLR Annual Reporting Form.

VI. Examination Results

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[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.

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.

For 2015, 2016, and 2017, the Company reported that it met the MLR standard of 80% for the individual and small group markets, and 85% for the large group market, and thus was not required to pay rebates to its enrollees in any market.

Based on the errors found during the examination, the Company's MLRs for the 2017 reporting year were recalculated and did not result in any change to the Company's estimated rebate liability in any market**.** However, due to the Company's use of the incorrect standard for determining group size and market classification, we cannot conclusively assess whether there were market classification and reporting errors that could impact the Company's MLRs or rebate liability.

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 uses 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 group policies for the period covered by this examination.

The documentation available to the examiners consisted of a copy of a billing invoice, the original or renewal application for coverage containing the total number of eligible 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 the master policy. Since the Company based its determinations on the number of eligible employees at the time of either the initial policy 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.

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 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

Incorrect Reporting of Incurred Claims
The Company incorrectly restated 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 for the individual, small group, and large group markets. The Company failed to adjust for the development of 2015 and 2016 incurred claims that occurred between 2015 and March 31, 2018. According to the 2017 MLR Annual Reporting Form Filing Instructions, the amount reported on 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, to reflect the run-out through March 31, 2018. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $1,030,132 in the individual market, $576,565 in the small group market, and $5,147,341 in the large group market.

Incorrect Reporting of Prescription Drug Costs
The Company incorrectly included in its paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms, the amount paid to its PBM for pharmacy claims, an amount that exceeded the total amount the PBM paid to pharmacy providers for prescriptions filled for the Company's enrollees. According to §158.140(b)(3)(ii), if an issuer outsources its pharmacy benefits coverage to a PBM, or a third-party vendor, and the PBM reimburses the provider at one amount but bills the issuer a higher amount to cover its network development, utilization management costs, and profits, then the amount that exceeds the reimbursement to the provider must not be included in incurred claims. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $292,256 in the individual market, $1,106,273 in the small group market, and $9,115,880 in the large group market.

Incorrect Reporting of Capitation Payments
The Company failed to properly include in its paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms adjustments for capitation payments. For 2015 and 2017, these capitation payments were included in the 12/31 column but not in the 3/31 column on the respective MLR Annual Reporting Forms, as they should have been. For the 2016 MLR reporting year, the capitation payments were included in the 3/31 column of the MLR Annual Reporting Form, but the capitation amount was not correctly calculated. As a result of the net effect of these errors, the Company understated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $379,866 in the individual market and $2,232,659

in the small group market, and overstated its incurred claims by $540,927 in the large group 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 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

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

Quality Improvement Activities (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 MLRs 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 are part of QIA that did meet the definition at §158.150. However, the Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the title description, job description, allocation percentages, and other information related to employees whose salaries were included 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, the Company improperly included on its 2017 MLR Annual Reporting Form expenses for certain activities that did not meet the definition of QIA at §158.150. These included expenses for activities such as actuarial, audit and accounting consulting, provider credentialing, advertising and marketing, among others. As a result, the Company overstated its three-year aggregate QIA reported on Part 3, Line 1.3, on its 2017 MLR Annual Reporting Form by $341,623 in the individual market, $433,895 in the small group market, and $2,636,711 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 QIA expenses were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

Earned Premium

Incorrect Reporting of Earned Premium
The Company improperly included federal risk adjustment transfer amounts for the individual and small group markets as adjustments to premium written reported in the 3/31 column on Part 2, Line 1.1, on its 2017 MLR Annual Reporting Form. In accordance with the 2017 MLR Reporting Form Annual Filing Instructions, federal risk adjustment transfer amounts must not be reflected in the 3/31 columns of premium written. The Company properly reported the federal risk adjustment transfer amounts on Part 2, Line 1.10, and Part 3, Line 1.6, on its 2017 MLR Annual Reporting Form as an adjustment to incurred claims. Consequently, incorrectly adjusting premium written in the 3/31 column results in double counting of the impact of the federal risk adjustment transfer amounts. As a result of this error, the Company understated its current year earned premium reported on Part 3, Line 2.1, by $3,159,809 in the individual market and $2,343,194 in the small group market.

Due to various reporting and calculation errors, the Company also incorrectly reported its direct written premium on Part 2, Line 1.1, on its 2017 MLR Annual Reporting Form. For example, the Company inadvertently included retroactive adjustments to reduce earned premium in the large group market twice, resulting in double counting of the adjustment. It also: incorrectly included a claims assessment from the state of Michigan that was already (properly) reported in taxes; included premium related to policies that were canceled in the prior year; and made a calculation error that resulted in premium being reported in the large group market that should have been reported in the individual market. As a result of the net effect of these errors, the Company understated its current year earned premium on Part 3, Line 2.1, on its 2017 MLR Annual Reporting Form by $1,822,830 in the individual market, $166,262 in the small group market, and $1,367,205 in the large group market.

Inappropriate Reporting of Bad Debt Reserves
The Company improperly deducted its bad debt reserves from the direct premium written in the large group market, as reported on Part 2, Line 1.1, on its 2015 and 2016 MLR Annual Reporting Forms. According to the 2015 and 2016 MLR Annual Reporting Form Filing Instructions, respectively, premium written should include premium collected and uncollected, but makes no reference to adjustments for bad debt reserves. In addition, reserves for bad debt should not be included in adjustments for premium write-offs reported on Part 2, Line 1.7. As a result of this error, the Company understated its three-year aggregate earned premium by $75,000 in the large group market on Part 3, Line 2.1, on its 2017 MLR Annual Reporting Form.

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, or that the data elements underlying the 2015, 2016, and 2017 premium as reported on the Company's 2017 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Improper Reporting of Federal Risk Adjustment Program User Fees

The Company improperly combined and reported federal risk adjustment program user fees with its Patient Centered Outcomes Research Institute (PCORI) Fee, on Part 1, Line 3.1b of its 2017 MLR Annual Reporting Form rather than including the user fees in Other Federal and State Regulatory Authority Licenses and Fees, as required by the 2017 MLR Annual Reporting Form Filing Instructions. According to the 2017 MLR Reporting Form Annual Filing Instructions, federal risk adjustment user fees should be reported on Part 1, Line 3.3b. This error did not have any impact on the Company's MLR calculations.

Based upon the procedures performed, other than the reporting error noted above, nothing additional came to our attention that would indicate that the taxes 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**,** or 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, other than the reporting error noted above with respect to improper inclusion of federal risk adjustment transfer amounts as adjustments to premium written, nothing additional 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 the Company 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.

Based on the Company's reported final MLRs, which exceeded the applicable standards in all markets for 2015, 2016, and 2017, the Company used the correct procedures to determine that no rebates were due for those years in those markets.

C. Rebate Disbursement and Notice

According to its 2015, 2016, and 2017 MLR Annual Reporting Forms, the Company did not owe rebates in any market in any year and therefore was not required by §158.250 to issue, and did not issue, any Notices of rebates for those years.

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 2016 covering the period January 1, 2012 through December 31, 2015. 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 2017 MLR Annual Reporting Form. No post-December 31, 2017 significant events were brought to CCIIO's attention.

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

CCIIO examined Physicians Health Plan'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 2017 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 cumulative effect of the examination findings that could be quantified, the recalculation of the Company's MLRs resulted in a substantive change to its reported MLRs for the individual, small group, and large group markets, but did not result in any rebates being due to its enrollees in any market. However, 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, at this time, conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

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 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 related to the average total number of employees for the calendar year preceding the coverage effective (or renewal) date. Alternatively, for the 2017 and later reporting years, the Company may elect to use the applicable state employee counting method, unless the state method does not take into account non-full-time employees, in which case the full-time equivalent method described in section 4980H(c)(2) of the Internal Revenue Code should be used.

Company Response
The Company acknowledges this finding and has already made modifications to our method of determining group size so that it is consistent with the definitions outlined in §158.103. The Company is also mindful of obtaining and maintaining documentation from employer groups at

application, as well as renewal. The modifications to the Company's determination were effective in 2020.

CCIIO Reply
CCIIO accepts the Company's response and the 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 storing documentation related to the number of employees of group policyholders, as well as maintaining documentation, as may be necessary, to enable CCIIO to verify that activities included in QIA meet the definition of QIA. For salary-related expenses classified as QIA, this includes 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 are allowable QIA expenses.

Company Response
The Company acknowledges this finding and is actively working with leadership to play an active role in identifying and supporting QIA expenses. This includes outlining activities by employee that meet the definition of QIA expenses and quantifiable time spent on such activities. Leaders are also responsible for identifying vendors that meet the definition of QIA activities and providing the story that supports inclusion. Conversations with leaders are initiated by the finance team responsible for preparing the MLR Annual Reporting Form Filing.

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 it completes the MLR Annual Reporting Form in accordance with §158.110 and the MLR Annual Reporting Form Filing Instructions, including properly restating prior year incurred claims, as well as ensuring proper reporting of earned premium, taxes, and licensing or regulatory fees.

Company Response
The Company acknowledges these findings and have adjusted our data files to properly account for development in prior year incurred claims and have reclassified the federal risk adjustment transfer amounts and discontinued including bad debt reserves in our earned premiums. Additionally, the Company pulls down the instructions annually and reviews the changes outlined for the reporting year. These changes have already been implemented effective with the 2019 MLR Annual Reporting Form Filing.

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

Corrective Action #4
The Company must implement policies and procedures to ensure accurate reporting of incurred claims in accordance with §158.140, including ensuring that amounts paid to its PBM in excess of the cost of prescription drugs paid to pharmacies for its enrollees are not included in incurred claims, and proper reporting of capitation payments.

Company Response
The Company acknowledges these findings. Annually, a request is made of our PBM to provide the necessary supporting documentation to exclude the PBM spread, this was started with the 2019 MLR Annual Reporting Form Filing.

The finding related to capitation payments was identified by the Company during field work for the 2017 MLR Annual Reporting audit. The Company has made changes to how it reports capitation payments, including revisiting the prior years and adjusting for any subsequent changes in the amounts reported for those years. This was implemented with the 2019 MLR Annual Reporting Form Filing.

CCIIO Reply
CCIIO accepts the Company's response and the 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 pursuant to §158.150 is reported on its MLR Annual Reporting Form.

Company Response
The Company acknowledges this finding and consistent with corrective action #2, is actively working with leadership to play an active role in identifying and supporting QIA expenses. This includes outlining activities by employee that meet the definition of QIA expenses and quantifiable time spent on such activities. Leaders are also responsible for identifying vendors that meet the definition of QIA activities and providing the story that supports inclusion. Conversations with leaders are initiated by the finance team responsible for preparing the MLR Annual Reporting Form Filing.

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

Corrective Action #6
The Company must implement policies and procedures to ensure earned premiums are accurately reported, as required by §158.130, including the exclusion of adjustments for the federal risk adjustment transfer amounts and bad debt reserves, as well as the correct calculation of written premium.

Company Response
The Company acknowledges this finding and has already made modifications to how we account for both federal risk adjustment transfer amounts and bad debts starting with the 2019 MLR Annual Reporting Form Filing.

CCIIO Reply
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.