Final

Report on the

Medical Loss Ratio Examination

of

Humana Health Plan, Inc.

(Louisville, Kentucky)

for the

2014 MLR Reporting Year

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

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

OVERSIGHT GROUP

April 30, 2021

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

Christina A Whitefield

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

Table of Contents

I. Executive Summary

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

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report. The Company must maintain adequate documentation to support the existence and premium amounts of all policies in effect during the MLR reporting year, accurately restate prior year incurred claims, properly report and accurately allocate taxes and licensing and regulatory fees, and correctly calculate the average deductible. The Company must also ensure that activities and expenses reported as quality improvement activity (QIA) expenses meet the regulatory definition of QIA and that sufficient documentation exists supporting such determinations.

The examination findings resulted in net decreases to the Company's reported MLRs in two states in the individual market, two states in the small group market, and five states in the large group market, increasing the Company's total rebate liability for the 2014 MLR reporting year by $5,379 in two states in the small group market and $219,527 in two states in the large group market. The examination findings resulted in net increases to the Company's reported MLRs in two other states in the large group market, reducing the rebate liability by $142,394 in those states in the large group market.

II. Scope of Examination

CCIIO examined the Company's 2014 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 45 CFR Part 158 implements section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Patient Protection and Affordable Care Act (PPACA), generally requires health insurance issuers to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and regulatory fees, expended by an issuer on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires an issuer to provide rebates to consumers if it does not meet the applicable MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form performed by CCIIO. The examination covered the reporting period of January 1, 2012 through December 31, 2014, including 2012, 2013, and 2014 experience and claims run-out through March 31, 2015.

We conducted the examination in accordance with the CCIIO Medical Loss Ratio Examination Handbook (the Handbook). The Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Annual Reporting Form Filing Instructions.

The Company's response to 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 responses. CCIIO reserves the right to review the actual implementation of the Company's corrective action and proposed action plan for each finding in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
7	**Failure to submit an MLR Form in the manner prescribed by the Secretary as required by §158.110** – The Company incorrectly restated its 2012 incurred claims in Part 3, Line 1.2 of the prior year (PY2) column of its 2014 MLR Annual Reporting Form in the individual, small group, and large group markets. As a result, the Company overstated its three-year aggregate incurred claims by $387,543 in the individual market, $1,783,824 in the small group market, and $3,402,997 in the large group market on its 2014 MLR Annual Reporting Form.
8	**Reporting of expenses as QIA that did not meet the definition of a QIA expense set forth in §158.150** – The Company improperly included in its QIA expenses the ICD-10 maintenance costs, as well as expenses for the electronic medical records software utilized for the Company's enrollees but also licensed to external third party clients. As a result, the Company overstated its three-year aggregate QIA expenses by a total of $23,967 in the individual market, $102,470 in the small group market, and $212,814 in the large group market on its 2014 MLR Annual Reporting Form.
8	**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 could not provide the contract documents for one small group policy in the sample of policies selected for testing of premium. In addition, the Company did not provide sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definitions set forth in §158.150 and that expenses reported as QIA were allocated in accordance with §158.170.

	No adjustments were made to the Company's MLR calculations as a result of these findings.
9	**Failure to properly report state taxes and assessments, as required by §158.162** – The Company improperly included sales and use taxes as part of its state income and business taxes reported on its 2014 MLR Annual Reporting Form. As a result, the Company overstated state income and business taxes by $20,060 in the individual market, $38,730 in the small group market, and $48,202 in the large group market on its 2014 MLR Annual Reporting Form.
9	**Failure to accurately allocate taxes and regulatory fees, as required by §158.170** – The Company improperly allocated Federally-facilitated Exchange (Exchange) user fees to the large group market in two states, and additionally applied an incorrect allocation percentage to the Exchange user fees in the individual market in one of these states due to an accounting error. As a result, the Company overstated its regulatory authority licenses and fees by a total of $145,788 in the large group market in two states, and understated the regulatory authority licenses and fees in the individual market by a net total of $102,757 on its 2014 MLR Annual Reporting Form.
10	**Failure to correctly calculate the average deductible in accordance with §158.232(c)** – The Company incorrectly computed the average deductibles in two states in the individual market and one state in the small group market on its 2014 MLR Annual Reporting Form. The Company utilized incorrect or incomplete data in calculating its average deductibles for 2012-2014, and calculated the deductible level for 2013 using the life-years for the current year, instead of using the 3-year aggregation of life-years for each deductible level as required by §158.232(c)(ii). This error did not impact the MLR calculation.

These findings resulted in net decreases of the Company's reported MLRs in two states in the individual market, two states in the small group market, and five states in the large group market. In two states in the small group market and two states in the large group market, the lower recalculated MLRs continued to be below the applicable MLR standards, resulting in an additional rebate liability of $5,379 in the small group market and $219,527 in the large group market for the 2014 MLR reporting year. In two states in the large group market, the recalculation increased the MLRs and reduced the rebate liability for the 2014 MLR reporting year by a total of $142,394. In all other states and markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect, including three states in the small group market and four other states in the large group market where the MLRs increased as a result of the findings, the Company owed no rebates for the 2014 MLR reporting year either because the recalculated MLRs continued to exceed the applicable MLR standard or because the Company reported fewer than 1,000 life-years during the three-year aggregation period and is therefore presumed to meet or exceed the applicable MLR standards, in accordance with §158.230(d).

The three-year aggregate incurred claims and earned premium amounts, combined for all of the Company's 17 states in each market, along with the additional rebates owed for 2014, are shown in the following tables. The differences between the amounts in the "As Recalculated" and the

"As Filed" rows reflect the adjustments made to properly restate incurred claims; remove disallowed QIA expenses and state sales and use taxes; reallocate Exchange user fees; and correct the deductible factors.

Recalculated Aggregate[1] Individual, Small Group, and Large Group Market Incurred Claims, Earned Premium, and Rebates for the 2014 Reporting Year

	Individual Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$234,987,189	$232,816,455	$0
As Recalculated	$234,599,646	$232,816,455	$0
Difference	($387,543)	$0	$0

	Small Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$740,452,810	$954,203,200	$144,891
As Recalculated	$742,236,634	$954,203,200	$150,270
Difference	$1,783,824	$0	$5,379

	Large Group Market		
	Incurred Claims	Earned Premium	Rebates
As Filed	$1,408,972,439	$1,678,860,040	$2,494,419
As Recalculated	$1,412,375,436	$1,678,860,040	$2,713,946
Difference	$3,402,997	$0	$219,527

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health insurer domiciled in the state of Kentucky and licensed in 20 states. The Company sells HMO coverage in the individual and group markets.

During the 2012, 2013, and 2014 MLR reporting years, the Company operated in the individual, small group, large group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2014, the Company reported a total of 255,183 covered lives and $1,003,412,060 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 827,492 covered lives and $5,494,833,307 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 stand-alone dental

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

and vision insurance, group life insurance, disability insurance, Medicare Advantage and Medicare Prescription Drug plans, and administration of self-funded group health plans.

B. Management

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

Officers

Name	Title
Bruce D. Broussard	President and Chief Executive Officer
Brian A. Kane	Senior Vice President and Chief Financial Officer
Joan O. Lenahan	Vice President and Corporate Secretary
Jonathan A. Canine	Vice President and Appointed Actuary

Directors

Name
Bruce D. Broussard
Steven E. McCulley
James E. Murray

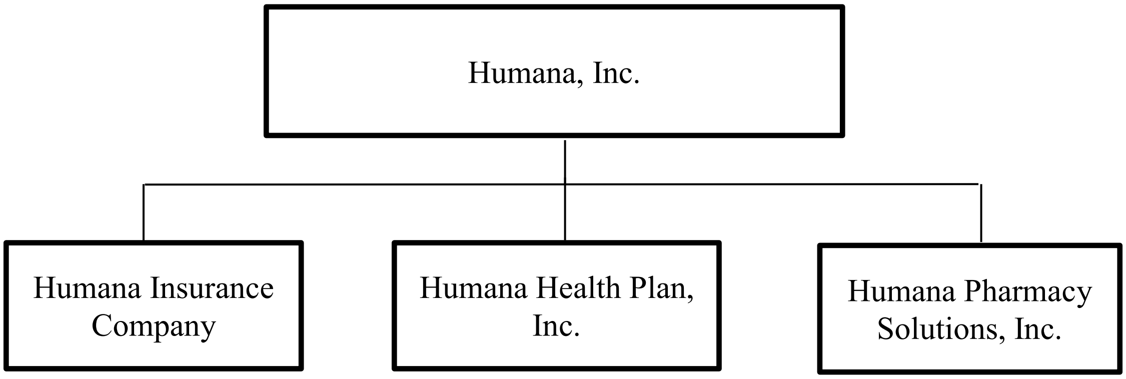
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2014 MLR Annual Reporting Form were:

Name	Title
Alan J. Bailey	CEO Attester
Brian A. Kane	CFO Attester

C. Ownership

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

Humana Health Plan, Inc.
Organizational Chart[2] as of December 31, 2014



D. Agreements

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

1. Corporate Service Agreement with Humana, Inc.
2. Service Center Agreement with Humana, Inc. and Humana Insurance Company
3. Indemnity Agreement with Humana, Inc.
4. Tax Allocation Agreement with Humana, Inc.
5. Commercial PBM Agreements with Humana Pharmacy Solutions, Inc.

E. Reinsurance

During 2012, 2013, and 2014, 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 321 West Main Street-12th Floor, Louisville, KY 40202. 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 provide the contract documents for one small group policy in the sample of

[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.

policies selected for testing of premium, and did not maintain documentation supporting expenses reported as QIA on its 2014 MLR Annual Reporting Form.

VI. Examination Results

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

For the 2014 MLR reporting year, the Company reported business subject to the rebate requirements of 45 CFR Part 158 in ten states. In one state in the individual market, two states in the small group market, and one state in the large group market, the Company reported fewer than 1,000 life-years during the three-year aggregation period and therefore is presumed to meet or exceed the MLR standards in those states and markets in accordance with §158.230(d). For 2014, the Company reported that it met the MLR standard of 80% for the individual market in four states, 80% for the small group market in five states, and 85% for the large group market in five states and thus was not required to pay rebates to its enrollees in these segments. For 2014, the Company reported that it did not meet the MLR standard in two states in the small group market and four states in the large group, and was required to and did pay rebates totaling $144,891 in the small group market and $2,494,419 in the large group market.

Based on the errors found during the examination, MLRs for the 2014 MLR reporting year were recalculated and resulted in an additional rebate liability of $5,379 in the small group market in two states and $219,527 in the large group market in two states.

A. MLR Data

Market Classification
The Company adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2012-2014 MLR reporting years. Other than the missing contract documents for one policy described further below, nothing additional came to our attention that would indicate that the samples of policies tested during the examination were not assigned to the correct market classification.

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

Incurred Claims
Incorrect Reporting of Prior Year Incurred Claims
The Company incorrectly restated its 2012 incurred claims on Part 3, Line 1.2 in the PY2 column of the 2014 MLR Annual Reporting Form in the individual, small group, and large group markets. The Company omitted the subsequent development of 2012 incurred claims that

occurred during 2013, but appropriately included the development that occurred during 2014 and through March 31, 2015. According to the 2014 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. As a result, the Company overstated the three-year aggregate incurred claims reported on its 2014 MLR Annual Reporting Form by $387,543 in the individual market, $1,783,824 in the small group market, and $3,402,997 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 incorrect restatement of 2012 incurred claims noted above, nothing additional came to our attention that would indicate that incurred claims were not accurately reported.

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

Quality Improvement Activities
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 owing are calculated and provided in accordance with 45 CFR Part 158.

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

Improper Inclusion of Expenses for Activities That Do Not Qualify as QIA
The Company improperly included in QIA expenses 100% of the costs attributable to an electronic medical records software utilized for its own enrollees, but also licensed to external third party clients. According to §158.150(b)(1)(iii), QIA expenditures that may be included in MLR calculations must be directed toward individual enrollees or provide health improvements to the population beyond those enrolled in coverage as long as no additional costs are incurred due to the non-enrollees. In addition, the Company improperly included ICD-10 maintenance costs as QIA expenses. For the 2012-2014 MLR reporting years, §158.150(b)(2)(i)(A)(*6*) only permits inclusion of ICD-10 implementation costs up to 0.3% of earned premium. As a result, the Company overstated its three-year aggregate QIA expenses by $23,967 in the individual

market, $102,470 in the small group market, and $212,814 in the large group market on its 2014 MLR Annual Reporting Form.

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

Earned Premium

Failure to Maintain Adequate Documentation

Based upon the procedures performed, the Company was unable to provide adequate supporting documentation, including the contract documents such as certificates of coverage, the policy declarations page, and Evidence of Coverage, evidencing the effective dates, enrollment, and premiums for one small group policy in the sample of policies selected for testing of premium. Section 158.502 requires an issuer to maintain all documents and other evidence necessary to enable CCIIO to verify compliance with the definitions and criteria set forth in 45 CFR Part 158 and that the MLR and any rebates owed are calculated and provided in accordance with 45 CFR Part 158. Based on alternative testing procedures, the examiners were able to confirm the existence of this policy and determined that the premium amounts appeared accurate.

Based upon the procedures performed, other than the inadequate documentation 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 2012, 2013, and 2014 premium as reported on the Company's 2014 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Improper Inclusion of State Sales and Use Taxes

The Company improperly included state sales and use taxes with its state income and business taxes reported on its 2014 MLR Annual Reporting Form. According to §158.162(b)(2)(i), state sales taxes are not excluded from premium in the MLR and rebate calculations. Consequently, the Company's state income and business taxes were overstated by $20,060 in the individual market, $38,730 in the small group market, and $48,202 in the large group market on its 2014 MLR Annual Reporting Form.

Incorrect Allocation of Taxes and Fees

The Company improperly allocated Exchange user fees to the large group market in two states. Because large group policies are not sold on the Exchanges, the user fees should have been allocated only to the individual market. As a result, the Company overstated regulatory authority licenses and fees by a total of $145,788 in the large group market in two states, and understated the regulatory authority licenses and fees in the individual market in these states by the same amounts on its 2014 MLR Annual Reporting Form.

In addition, due to an accounting error, the Company incorrectly applied a factor of 3.5% instead of 1.4% when allocating Exchange user fees to the individual market in one state. As a result, the Company overstated regulatory authority licenses and fees by $43,031 in one state in the individual market on its 2014 MLR Annual Reporting Form.

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

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

B. Credibility-Adjusted MLR and Rebate Amount Calculation

Incorrect Calculation of the Average Deductible
The Company incorrectly calculated the average deductible in three states for some of its individual and small group market policies for purposes of calculating the credibility adjustment. In two states in the individual market and one state in the small group market, the Company utilized incorrect or incomplete life-years and listings of policies in calculating average deductibles on its 2014 MLR Annual Reporting Form. In addition, the Company weighted the deductible level for the 2013 reporting year using the life-years for only the current year, instead of using the three-year aggregation of life-years for each deductible level as required by §158.232(c)(ii). The examiners reviewed the Company's credibility adjustment in each affected state and market after correcting the average deductible. The recalculation did not result in any changes to the credibility adjustments in all three affected states in the individual and small group markets. The Company did not elect to report a deductible factor in the remaining states and markets.

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

The Company filed a 2014 MLR Annual Reporting Form for nine states. The Company reported that it did not meet the applicable MLR standard in two states in the small group market and four states in the large group market. The Company used correct procedures to calculate total rebates of $144,891 in the small group market and $2,494,419 in the large group market in those states for 2014. In all other states and markets in which it had health insurance coverage subject to 45 CFR part 158 in effect, the Company reported on its 2014 MLR Annual Reporting Form that it met the applicable MLR standards[3] and thus was not required to pay rebates to its enrollees in these states and markets.

C. Rebate Disbursement and Notice

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

D. Compliance with Previous Recommendations

The Company indicated that neither CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. The Company informed CCIIO that the State of Kentucky performed a financial examination of the Company in 2015 covering the period January 1, 2009 through December 31, 2013. The financial examination resulted in two findings, which did not have an impact on the Company's federal MLR calculation or reporting.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2014 MLR Annual Reporting Form. No post-December 31, 2014 significant events were brought to CCIIO's attention.

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

CCIIO examined Humana Health Plan, Inc.'s 2014 MLR Annual Reporting Form to assess the Company's compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the 2014 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2014 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. Based on the cumulative effect of all errors and findings, the Company owes additional rebates totaling $5,379 in the small group market in two states and $219,527 in the large group market in two states.

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

---

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

Corrective Action #1
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 included in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should include storing copies of all policies and certificates of coverage that the Company has issued, as well as maintaining adequate documentation, as may be necessary, to enable CCIIO to verify that activities included in QIA meet the definition of QIA and that the Company's allocation of various expenses reported as QIA is reasonable. For salary-related expenses classified as QIA, this would include performing time studies of employee activities and/or other quantitative analyses of salary ratios to support allocating any such amounts to QIA, as only salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities should be considered as allowable QIA expenses.

Company Response
"The Company appreciates the importance of appropriately reporting QIA expenses. The Company will implement procedures to ensure that departmental costs reported as QIA are consistent with the requirements noted above. The Company will implement process and procedures to ensure supporting documentation is maintained as it relates to policies/certificate of coverage and QIA support."

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

Corrective Action #2
The Company must adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150.

Company Response
"The Company appreciates the importance of appropriately reporting QIA expenses. The Company will implement procedures to ensure that departmental costs reported as QIA are consistent with the requirements noted above."

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 the applicable MLR Annual Reporting Form Filing Instructions, including properly restating prior year incurred claims.

Company Response
"The Company appreciates the importance of appropriately reporting restated incurred claims. The Company has updated its procedures and activities to ensure that the restated prior year incurred claims are accurately reported."

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

Corrective Action #4
The Company must adopt and implement procedures to ensure that amounts reported as state income and business taxes meet the requirements of §158.162, and that Exchange user fees are properly and accurately allocated in accordance with §158.170.

Company Response
"The Company appreciates the importance of appropriately reporting tax expenses. The Company has implemented procedures that ensure tax allocations yield the most accurate results and are consistent with the requirements of §158.162."

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

Corrective Action #5
The Company must adopt and implement procedures to ensure that it calculates the average deductible in accordance with §158.232(c), including correctly weighting each deductible level using aggregate life-year experience and the appropriate population of policies. Alternatively, the Company may elect to use a deductible factor of 1.0 in lieu of calculating average deductibles.

Company Response
"The Company appreciates the importance of appropriately calculating average deductible factors. The Company has implemented procedures that ensure accurate results."

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

Corrective Action #6
The Company must re-file its 2014 MLR Annual Reporting Form to rectify the errors and reflect the findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable, including calculating any additional rebates due to its enrollees. Any underpaid rebates calculated by the Company as a result of the findings herein must be paid as soon as possible but in no event later than sixty (60) days from the date of the Company's receipt of the Final MLR Examination Report.

Company Response
"In order to rectify the issues noted in the MLR Examination Report, the Company will correct and refile 2014 reporting forms and process and distribute any underpaid rebates as detailed in this report."

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.

X. Appendix I – Recalculated MLRs and Rebates for the 2014 Reporting Year

The three-year adjusted aggregated numerator and denominator, along with the resulting credibility-adjusted MLR and rebate for 2014, for the states and markets in which the MLR changed as a result of the examination, are shown in the following tables. The differences between the amounts in the "As Recalculated" and "As Filed" rows reflect the adjustments made to properly restate incurred claims; remove disallowed QIA expenses and state sales and use taxes; reallocate Exchange user fees; and correct the deductible factors.

Recalculated MLRs and Rebates for the Individual, Small Group, and Large Group Markets for the 2014 Reporting Year[4]

Arizona

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$85,680,687	$109,364,132	79.8%	$78,808
As Recalculated	$85,643,684	$109,370,088	79.8%	$78,820
Difference	($37,003)	$5,956	(0.0%)	$12

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$59,398,055	$73,757,668	80.5%	$1,462,882
As Recalculated	$59,670,125	$73,762,105	80.9%	$1,333,030
Difference	$272,070	$4,437	0.4%	($129,852)

Colorado

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$146,935,509	$174,230,569	85.7%	$0
As Recalculated	$147,382,747	$174,236,571	85.9%	$0
Difference	$447,238	$6,002	0.2%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$36,949,551	$45,272,818	84.1%	$123,464
As Recalculated	$37,138,067	$45,419,877	84.2%	$110,922
Difference	$188,516	$147,059	0.1%	($12,542)

Illinois

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$9,998,895	$9,039,571	117.8%	$0
As Recalculated	$9,910,609	$9,040,099	116.8%	$0
Difference	($88,286)	$528	(1.0%)	$0

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

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$73,985,065	$85,642,488	88.4%	$0
As Recalculated	$75,499,597	$85,645,460	90.1%	$0
Difference	$1,514,532	$2,972	1.7%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$495,586,667	$532,137,336	93.1%	$0
As Recalculated	$499,033,184	$532,149,286	93.8%	$0
Difference	$3,446,517	$11,950	0.7%	$0

Indiana

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,701,128	$8,209,847	76.3%	$66,083
As Recalculated	$5,682,540	$8,210,087	76.0%	$71,450
Difference	($18,588)	$240	(0.3%)	$5,367

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$48,386,191	$54,450,904	91.3%	$0
As Recalculated	$48,312,839	$54,453,309	91.2%	$0
Difference	($73,352)	$2,405	(0.1%)	$0

Kansas

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$93,650,455	$103,352,109	92.6%	$0
As Recalculated	$93,404,541	$103,355,725	92.3%	$0
Difference	($245,914)	$3,616	(0.3%)	$0

Kentucky

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$113,440,772	$132,816,938	86.0%	$0
As Recalculated	$113,231,680	$132,828,051	85.9%	$0
Difference	($209,092)	$11,113	(0.1%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$356,811,431	$427,653,512	83.4%	$0
As Recalculated	$356,240,304	$427,671,443	83.3%	$0
Difference	($571,127)	$17,931	(0.1%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$607,982,735	$718,820,045	84.6%	$858,981

	Numerator	Denominator	MLR	Rebate
As Recalculated	$607,428,826	$718,840,113	84.5%	$1,073,827
Difference	($553,909)	$20,068	(0.1%)	$214,846

Missouri

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,857,884	$7,966,162	93.2%	$0
As Recalculated	$7,242,357	$7,966,402	98.0%	$0
Difference	$384,473	$240	4.8%	$0

Nevada

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$5,657,238	$6,817,758	89.2%	$0
As Recalculated	$5,971,131	$6,818,104	93.8%	$0
Difference	$313,893	$346	4.6%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,509,678	$4,641,669	82.9%	$49,092
As Recalculated	$3,501,377	$4,641,918	82.7%	$53,773
Difference	($8,301)	$249	(0.2%)	$4,681

Tennessee

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$89,284,943	$101,209,367	89.8%	$0
As Recalculated	$89,065,025	$101,213,333	89.6%	$0
Difference	($219,918)	$3,966	(0.2%)	$0