Final

Report on the

Medical Loss Ratio Examination

of

Group Hospitalization and Medical Services, Inc.

(Washington, D.C.)

for the

2013 MLR Reporting Year

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

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

OVERSIGHT GROUP

November 27, 2020

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 Group Hospitalization and Medical Services, Inc. (the Company) for the 2013 reporting year, including 2013, 2012, and 2011 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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Medical Loss Ratio Division
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U.S. Department of Health & Human Services

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I. Executive Summary

The Center for Consumer Information & Insurance Oversight (CCIIO) has performed an examination of the 2013 Medical Loss Ratio (MLR) Annual Reporting Form for Group Hospitalization and Medical Services, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2013 MLR Annual Reporting Form contains some elements that are not compliant with the requirements of 45 CFR Part 158 but that do not impact consumer rebates. We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including ensuring that activities and expenses reported as quality improvement activities (QIA) meet the regulatory definition of QIA and properly reporting community benefit expenditures.

The examination findings and subsequent recalculation of the Company's 2013 MLRs resulted in decreases of the Company's reported 2013 MLRs in the individual, small group, and large group markets in all states in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect. As the recalculated 2013 MLRs continue to exceed the applicable MLR standards, the findings did not result in additional rebates owed in any of the states or markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect.

II. Scope of Examination

CCIIO examined the Company's 2013 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 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, 2011 through December 31, 2013, including 2011, 2012, and 2013 experience and claims run-out through March 31, 2014. 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 Response, and CCIIO Reply 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	**Reporting of expenses as QIA that did not meet the definition of a QIA expense set forth in §158.150 –** The Company improperly included expenses related to several types of non-qualifying activities in its QIA expenses and was unable to provide adequate supporting documentation of these expenses as QIA. Consequently, it was determined that the Company overstated QIA expenses by a total of $892,816 in the individual market, $2,111,692 in the small group market, and $10,434,133 in the large group market across all states in which the Company operated.
8	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary as required by §158.110 –** The Company incorrectly reported community benefit expenditures (CBE) on the 2013 MLR Annual Reporting Form line reserved for state premium taxes, rather than on the line reserved for CBE, as required by the MLR Annual Reporting Form Filing Instructions. This error did not impact the MLR calculation.

These findings resulted in decreases of the Company's reported MLRs in the individual, small group, and large group markets in all states in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect. The three-year adjusted, aggregated numerator and denominator for the 2013 reporting year, credibility-adjusted MLR for 2013, and rebate for 2013 for the District of Columbia, Maryland, and Virginia in each market are shown in the following tables. The differences between the amounts in the "As Filed" and "As Recalculated" rows reflect the impact of the adjustments made to remove disallowed QIA expenses.

Recalculated MLRs[1] and Rebates for the Individual, Small Group, and Large Group Markets for the 2013 Reporting Year

[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.

District of Columbia

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$88,190,429	$87,055,406	102.9%	$0
As Recalculated	$87,917,128	$87,055,406	102.5%	$0
Difference	($273,301)	$0	(0.4%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$510,064,675	$608,686,812	83.8%	$0
As Recalculated	$509,134,064	$608,686,812	83.6%	$0
Difference	($930,611)	$0	(0.2%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,495,081,990	$1,655,020,104	90.3%	$0
As Recalculated	$1,492,263,615	$1,655,020,104	90.2%	$0
Difference	($2,818,375)	$0	(0.1%)	$0

Maryland

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$154,688,790	$183,131,327	84.5%	$0
As Recalculated	$154,355,027	$183,131,327	84.3%	$0
Difference	($333,763)	$0	(0.2%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$574,864,610	$691,337,106	83.2%	$0
As Recalculated	$574,209,720	$691,337,106	83.1%	$0
Difference	($654,890)	$0	(0.1%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$2,920,145,500	$3,147,265,463	92.8%	$0
As Recalculated	$2,915,830,579	$3,147,265,463	92.6%	$0
Difference	($4,314,921)	$0	(0.2%)	$0

Virginia

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$183,973,169	$208,118,591	89.0%	$0
As Recalculated	$183,687,417	$208,118,591	88.9%	$0
Difference	($285,752)	$0	(0.1%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$401,472,761	$486,553,948	82.5%	$0
As Recalculated	$400,946,570	$486,553,948	82.4%	$0
Difference	($526,191)	$0	(0.1%)	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$2,435,689,704	$2,626,391,126	92.7%	$0
As Recalculated	$2,432,388,837	$2,626,391,126	92.6%	$0
Difference	($3,300,837)	$0	(0.1%)	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit health insurer domiciled in the District of Columbia. The Company sells comprehensive health insurance and managed health care products and services to individuals and employers in Maryland, Washington, D.C., and Virginia.

During the 2011, 2012, and 2013 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, 2013, the Company reported a total of 655,954 covered lives and $3,160,830,192 in total, direct earned premium from policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 728,464 covered lives and $3,248,543,000 in direct earned premium from all health lines of business. The Company's lines of business not subject to the MLR regulations at 45 CFR Part 158 include Medicare supplemental insurance, stand-alone dental insurance, and long-term care insurance.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2013 were:

Officers

Name	Title
Chester Burrell	President and CEO
Meryl Davis Burgin	Corporate Secretary, Executive Vice President & General Counsel
Mary Beth Giblin	Assistant Corporate Secretary
Randolph S. Sergent	Assistant Corporate Secretary
Mark Chaney	Executive Vice President and CFO
Jeanne Ann Kennedy	Corporate Treasurer & Vice President

Directors

Name
Janice Delores Anderson
Larry Donovan Bailey
Faye Ford Fields
Artis Gail Hampshire-Cowan
Wendell Lee Johns
Bernard Keith-Jarvis
Natalie Olivia Ludaway
Jack Allan Meyer
Elizabeth Oliver-Farrow
Elena Victoria Rios
Carlos Mario Rodriquez
Patricia Amelia Rodriguez
Robert Lee Sloan
James Wallace

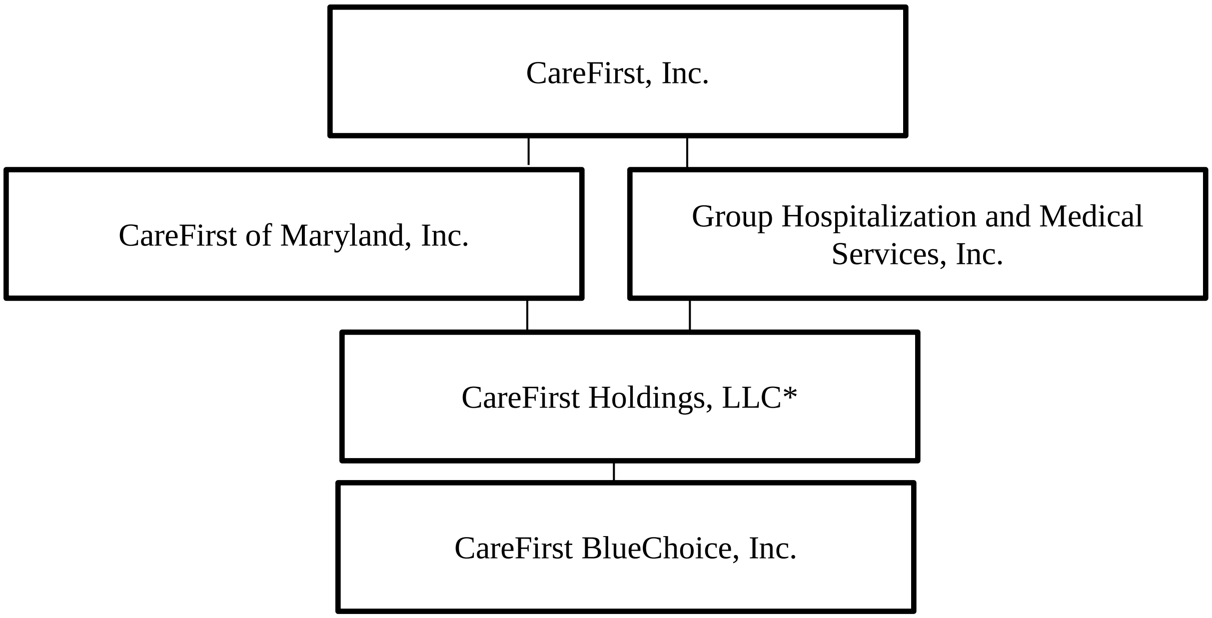
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

Name	Title
Chester Burrell	CEO Attester
Mark Chaney	CFO Attester

C. Ownership

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

Group Hospitalization & Medical Services, Inc.
Organizational Chart[2] as of December 31, 2013



*CareFirst Holdings, LLC, is owned 50.001% by CareFirst of Maryland, Inc. and 49.999% by Group Hospitalization and Medical Services, Inc.

D. Agreements

As of December 31, 2013, the Company had entered into the following inter-company agreements that are pertinent to a review of its 2013 MLR Annual Reporting Form:

1. A Network Access Agreement with CareFirst Blue Choice, Inc. and The Dental Network, Inc.
2. An Administrative Services Agreement with CareFirst, Inc., CareFirst Blue Choice, Inc. and its subsidiaries, and CareFirst of Maryland, Inc. and its subsidiaries.
3. An Administrative Services Agreement with CareFirst BlueChoice, The Dental Network, CareFirst of Maryland, Inc., First Care, Inc. and Capital Area Services Company, Inc.
4. A Tax-Sharing Agreement with CareFirst, Inc. and CareFirst of Maryland, Inc.

E. Reinsurance

During 2011, 2012, and 2013, 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.

[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.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 10455 Mill Run Circle Owings Mills, MD. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

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 2011, 2012, and 2013 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were filed by the due date.

The Company reported that it met the applicable MLR standards in all states and markets for the 2012 and 2013 MLR reporting years and thus was not required to pay rebates to its enrollees for these years. For the 2011 reporting year, the Company reported that it did not meet the MLR standard of 80% in the District of Columbia and Virginia small group markets, and as a result paid rebates totaling $5,960,400 in those states and markets. The Company reported that it met the applicable MLR standards in all states for the individual and large group markets for the 2011 MLR reporting year and therefore was not required to pay rebates in those markets.

Based on the errors found during the examination, the MLRs for the 2013 MLR reporting year were recalculated but remained above the applicable MLR standards and therefore did not result in additional rebates being owed.

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 2011-2013 reporting years. The samples of policies tested during the examination were found to be 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
Based upon the procedures performed, including validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing came to our attention that would indicate that incurred claims were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts

Based 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

Improper Inclusion of Expenses for Activities That Do Not Qualify as QIA

Based on a review of a sample of transactions and activities in numerous cost centers, certain activities reported as QIA did not qualify under the definition at §158.150 and/or the Company was unable to provide adequate documentation supporting that the reported activities met the definition of QIA.

Several of the Company's cost centers were found to consist entirely of expenses for activities that are specifically excluded from QIA pursuant to §158.150(c), including cost containment, marketing, and business and product development. As all of the Company's expenses in these cost centers were allocated to QIA in the states and markets subject to MLR requirements under 45 CFR Part 158, a total of $80,989 in the individual market, $191,555 in the small group market, and $946,496 in the large group market across all states in which the Company operated was deemed to have been inappropriately included in QIA on the 2013 MLR Annual Reporting Form.

Some of the Company's other cost centers consisted for the most part of activities that qualify as QIA, but also contained expenses for some activities that did not appear to qualify as QIA, and the Company was unable to adequately support the allocation percentages for these costs centers to demonstrate that expenses for the non-qualifying activities were excluded from QIA on the 2013 MLR Annual Reporting Form. The non-qualifying activities included dispute resolution, maintaining departmental policies and procedures, professional development, and consulting with providers on issues unrelated to patient-centered intervention. However, expenses for the portion of activities that did not qualify as QIA were deemed to be immaterial and therefore no adjustments were made to the Company's MLR calculations as a result of this finding.

In addition, the Company allocated to QIA between 1% and 15% of expenses in approximately 120 cost centers that contained various indirect technology and other administrative expenses. However, the Company was unable to demonstrate how the actual activities in these cost centers met the definitions of QIA and was unable to adequately support the QIA allocation percentages for these costs centers. Consequently, a total of $240,558 in the individual market, $568,968 in the small group market, and $2,811,342 in the large group market allocated to QIA from these cost centers across all states in which the Company operated was deemed to be unsupported and was removed for purposes of recalculating the 2013 MLRs.

Testing of expenses for various activities outsourced to third party vendors and reported as QIA also revealed activities which did not qualify as QIA, such as account management, pre-sales support, and sales activities. The Company was unable to demonstrate how the actual activities performed by these vendors met the definitions of QIA and was unable to adequately support the QIA allocation percentages. Consequently, a total of $97,022 in the individual market, $229,477 in the small group market, and $1,133,873 in the large group market of these vendor expenses allocated to QIA across all states in which the Company operated was deemed to be unsupported and was removed for purposes of recalculating the 2013 MLRs.

The Company additionally included in its QIA expenses amounts incurred in support of various community based programs and initiatives. According to the Company, these contributions of support were not mandatory but were incurred as part of its corporate mission as a not-for-profit organization. The activities supported by these programs were directed at the general population of the regional areas in which the Company operated, rather than at its enrollees. 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. Consequently, a total of $474,247 in the individual market, $1,121,692 in the small group market, and $5,542,422 in the large group market across all states in which the Company operated was deemed to have been inappropriately included in QIA on the 2013 MLR Annual Reporting Form.

As a result of the Company's improper inclusion of expenses related to several types of non-qualifying activities in its QIA expenses, it was determined that the Company overstated QIA expenses by a total of $892,816 in the individual market, $2,111,692 in the small group market, and $10,434,133 in the large group market.

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

Earned Premium

Based upon the procedures performed, nothing came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying 2011, 2012, and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

The Company is a not-for-profit organization that is not exempt from federal income tax, and therefore may deduct community benefit expenditures (CBE) in lieu of state premium taxes from its earned premium in accordance with §158.162(c). The Company incorrectly reported the CBE it paid in lieu of premium taxes in Maryland on Part 1, Line 3.2b instead of Line 3.2c of its 2013 MLR Annual Reporting Form. Line 3.2b is designated for state premium taxes, while Line 3.2c is designated for CBE. There was no impact to the Company's MLRs as a result of this error.

Other than the error noted above, based upon the procedures performed, nothing additional came to our attention that would indicate that the taxes and regulatory fees excluded from 2011, 2012, and 2013 earned premium reported on the Company's 2013 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 2013 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 by jurisdiction and market, which the examination confirmed.

B. Credibility-Adjusted MLR and Rebate Amount Calculation

Based upon the procedures performed, the Company correctly applied the credibility adjustment when the Company calculated and reported its MLRs, in accordance with §§158.230-158.232. The Company's credibility-adjusted MLRs were calculated using the correct formula in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions.

Based on the Company's reported final MLRs, which exceeded the applicable standards in the District of Columbia and Virginia individual and large group markets, and all markets in Maryland for 2011, as well as all states and markets for 2012 and 2013, the Company used correct procedures to determine that no rebates were due for those years in those states and markets. The Company reported that it did not meet the MLR standard of 80% in the District of Columbia and Virginia small group markets for 2011, and used correct procedures to calculate total rebates of $5,960,400 for 2011 in those states and markets. In accordance with §158.240, the Company additionally paid late interest of $201,282 resulting from the Company's resubmission of corrected 2011 MLR Annual Reporting Forms after it identified errors in the initial filing, and the consequent payment of additional, corrected 2011 rebates after the August 1, 2012 rebate deadline.

C. Rebate Disbursement and Notice

According to its 2012 and 2013 MLR Annual Reporting Forms, the Company reported that it did not owe rebates in any state or market for 2012 and 2013, and therefore was not required to and did not issue any Notices of rebates for those years. Based upon the procedures performed, the Company timely issued the 2011 Notice (of no rebate) in District of Columbia and Virginia individual and large group markets, and all markets in Maryland in accordance with §158.251. Based upon the procedures performed, the Company timely issued rebates for 2011 in accordance with §§158.240-244 and Notices of rebates in accordance with §158.250 in the District of Columbia and Virginia small group markets following the initial submission of its 2011 MLR Annual Reporting Forms. Subsequently, the Company identified errors in its initial filing and promptly issued additional, corrected rebates.

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 District of Columbia Department of Insurance, Securities, and Banking performed a financial examination of the Company in 2013 covering the period January 1, 2009 through December 31, 2013. There were no findings noted in the examination report.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2013 MLR Annual Reporting Form. No post-December 31, 2013 significant events were brought to CCIIO's attention.

VIII. Conclusion, Corrective Actions, Company Response, and CCIIO Reply

CCIIO examined Group Hospitalization & Medical Services, Inc.'s 2013 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 2013 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2013 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. The effect of the examination findings and subsequent recalculation of the Company's MLRs did not result in any additional rebates owed in any of the states or markets in which it operated.

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

Corrective Action #1

The Company must adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150 and that sufficient documentation exists to support such determinations. The Company should perform additional analyses to adequately differentiate between activities that do and do not qualify as QIA, and perform additional quantitative analyses to ensure that only the appropriate percentage of each activity or transaction that qualifies as a QIA pursuant to §158.150 is reported in its MLR Annual Reporting Form.

Company Response

"The Company has adopted and implemented procedures to ensure that activities and expenses reported as QIA meet the requirements set forth in 45 CFR 158.150 and that sufficient documentation exists and is maintained to support such determinations. The Company periodically engages an external consultant to review its activities and expense reported as QIA and to perform additional analysis to ensure (1) compliance with the requirements of 45 CFR 158.150, and (2) that the percentages of any allocations within a specific cost center accurately reflect the performed QIA activities. As a result of this examination, the Company reviewed its cost centers and adjusted the activities and expenses reported as QIA in the Company's MLR Annual Reporting Form submissions."

CCIIO Reply

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

Corrective Action #2
The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions, including reporting community benefit expenditures on the correct line.

Company Response
"The Company has implemented procedures to ensure it completes the MLR Annual Reporting Form in accordance with the filing instructions. The in lieu of premium taxes in Maryland will be reported as community benefit expenditures beginning with the MLR Annual Reporting Form submitted in 2021 for the 2020 MLR year."

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.