

Final
Report on the
Medical Loss Ratio Examination
of
Hawaii Management Alliance Association
(Honolulu, Hawaii)
for the
2013 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
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OVERSIGHT GROUP

July 15, 2019

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 Hawaii Management Alliance Association (the Company) for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Recommendation. This final report, which will be made publicly available, incorporates the Company's responses and CCIIO's evaluation of the responses.

A handwritten signature in blue ink that reads "Christina A. Whitefield".

Christina A. Whitefield, Director
Medical Loss Ratio Division
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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 Hawaii Management Alliance Association (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 fully compliant with the requirements of 45 CFR Part 158 and which impact consumer rebates.

We recommend that the Company implement the necessary corrective actions to comply with various sections of 45 CFR Part 158. The Company should obtain adequate documentation to accurately determine the group size and market classification of policies, implement corrective actions to review its methodologies and assumptions for developing its direct claims liability, and properly report the portion of its direct claims liability attributable to contingent benefit and lawsuit reserves. The Company should ensure that quality improvement activity (QIA) expenses meet the regulatory definition and that sufficient documentation exists supporting such determinations. The Company should ensure that QIA and tax and regulatory fee expenses are appropriately allocated, and that all amounts, including earned premium, are reported accurately. The Company should adopt and implement a comprehensive MLR records maintenance program. Additionally, the Company should determine the impact of the findings on its MLRs and rebate liability, revise and resubmit its MLR Annual Reporting Form for 2013, and disburse any resulting rebates within sixty (60) days from the date of the Company's receipt of the Final MLR Examination Report.

The examination findings and subsequent recalculation of the Company's MLRs resulted in a change to its reported MLRs in both the small group and large group markets in Hawaii. In the small group market, the recalculation reduced the MLR by an estimated 3.6 percentage points and increased the rebate liability for the 2013 reporting year by an estimated \$2,757,711. In the large group market, the recalculation increased the MLR by an estimated 1.8 percentage points and reduced the rebate liability for the 2013 reporting year by an estimated \$1,249,023. The recalculations were based only on the examination findings that could be quantified. The Company's lack of supporting documentation was substantial enough to suggest that additional adjustments to the Company's MLRs would likely be necessary if the examiners were able to adequately verify all of the elements of the Company's MLR calculations.

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 companies 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 a company 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 a company 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 and 2012 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 and Recommendations section of this Report. The Company’s corrective action was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO’s response is based solely on a review of the Company’s response. CCIIO reserves the right to review the actual implementation of the Company’s corrective action for each finding and proposed action plan in future MLR Annual Reporting Forms, examinations or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
8	Failure to employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders – The Company did not obtain the average number of employees from each group policyholder at the time of initial application or policy renewal and therefore could not correctly determine each group’s size and market classification. Additionally, for two policies in the sample tested, the Company could not provide adequate documentation to support its determination of those groups’ sizes.
9	Failure to assign the correct market classification in accordance with the definitions in §158.103 – In the sample tested, the Company incorrectly classified one policy issued to a small employer as a large group policy, resulting in misallocation of the Company’s earned premium, incurred claims, and life-year experience between the small group and large group markets.
9	Failure to maintain adequate documentation as required by §158.502 –

Page	Key Findings
	The Company did not maintain the documents and other records necessary to enable CCIIO to verify how it determined the size of group policyholders. In addition, the Company could not provide adequate reconciliation of its reported incurred claims and earned premium to the supporting, detailed data files provided during the examination, or provide adequate documentation to enable CCIIO to verify that the expenses reported as QIA met the requirements of § 158.150.
9	Failure to aggregate data for policies not subject to the MLR requirements separately, as required by §158.120(a) and the MLR Reporting Form Instructions – The Company incorrectly aggregated the experience of stand-alone dental, vision, and other excepted benefit coverage with its small and large group market health insurance coverage subject to 45 CFR Part 158 and included it in MLR calculations, instead of reporting it separately as Other Health. As a result, on its 2013 MLR Annual Reporting Form, the Company overstated its three-year aggregate small group market incurred claims by \$9,105,045 and premium by \$19,587,844; and its large group market incurred claims by \$2,110,510 and premium by \$3,844,647.
10	Failure to properly report direct claims liability and contingent benefit and lawsuit reserves in accordance with §158.140 and the MLR Reporting Form Instructions – The Company improperly reported a portion of its direct claims liability as direct claim reserves. In addition, the Company reported its litigation reserve as part of its direct claim reserve on its 2012 MLR Annual Reporting Form, rather than separately in Part 2, Line 2.13, as required by the MLR Annual Reporting Form Filing Instructions. There was no impact to the Company’s MLRs as a result of these errors.
11	Reporting of quality improvement activities (QIA) that did not meet the definition of a QIA expense as set forth in §158.150 – The Company could not fully support the amounts it reported and paid to a third party administrator for the provision of QIA-related services. Based on a review of the supporting documentation that was available, it was estimated that the Company overstated its three-year aggregate QIA expenses by \$10,415,407 in the small group market and \$1,838,013 in the large group market.
12	Failure to properly allocate QIA expenses, as required by §158.170 – The Company applied a weighted-average methodology to allocate QIA expenses among the small group and large group markets that did not yield the most accurate results, as required by § 158.170. Based on the supporting documentation, it was estimated that the Company over-allocated its three-year aggregate QIA expenses by \$4,006,420 in the small group market and under-allocated its three-year aggregate QIA expenses in the large group market by the same amount, after adjusting for the unsupported amounts.
12	Failure to accurately report earned premium, as required by §158.130

Page	Key Findings
	– Due to a recording error, the Company overstated its 2013 direct earned premium in the large group market by \$400,000.
12	Failure to accurately calculate MLR, as required by §158.221 – Due to a recording error, the Company did not exclude its 2013 Patient-Centered Outcomes Research Institute (PCORI) fee from the MLR denominator in the amount of \$40,823 in the small group market and \$38,431 in the large group market.
13	Failure to properly allocate taxes and regulatory fees, as required by §158.170 – The Company applied a weighted-average methodology to allocate tax and regulatory fee expenses to the small group and large group markets that did not yield the most accurate results, as required by §158.170. Based on a review of the supporting documentation that was available, it was estimated that the Company over-allocated its three-year aggregate tax and regulatory fee expenses to the small group market by \$54,326 and under-allocated tax and regulatory fee expenses to the large group market by \$112,288.
14	Failure to comply with the MLR notification requirements set forth in §158.251 – The Company failed to use the required language in the 2011 notice of no rebate, as required by §158.251, informing enrollees that it met or exceeded the applicable MLR standard.

Due to the lack of accurate documentation supporting group size and market classification, incorrect reporting of business not subject to MLR requirements, as well as inadequate documentation supporting the QIA expenses, we cannot, at this time, conclusively assess whether there were additional errors that would impact the Company’s MLR. Based on the adjustments that could be quantified, the recalculated MLR in the small group market decreased by an estimated net 3.6 percentage points and resulted in an estimated additional rebate liability of \$2,757,711. In the large group market, the adjustments that could be quantified resulted in an estimated net increase in the MLR of 1.8 percentage points and an estimated decrease of \$1,249,023 in rebate liability for the 2013 reporting year.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR and rebate liability for 2013, are shown in the following tables. The differences between the amounts in the “As Recalculated” and the “As Filed” rows reflect the net impact of the adjustments made as a result of certain policies with incorrect market classifications being reassigned to another market, removal of business not subject to 45 CFR Part 158 from the calculation, disallowing unsupported QIA expenses, reassigning unreasonably allocated QIA and tax and regulatory fees between markets, and correcting incorrectly reported earned premium and the PCORI fee. As noted above, the recalculated values only include adjustments for findings where sufficient information was available to quantify the amount of the misstatement.

**Recalculated MLRs and Rebates for the Small Group and Large Group Markets
for the 2013 Reporting Year**

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$195,241,297	\$250,144,220	78.1%	\$1,647,331
As Recalculated	\$171,804,728	\$230,723,580	74.5%	\$4,405,042
Difference	(\$23,436,569)	(\$19,420,640)	(3.6%)	\$2,757,711

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$169,792,791	\$206,261,000	82.3%	\$1,848,393
As Recalculated	\$169,760,385	\$201,791,186	84.1%	\$599,370
Difference	(\$32,406)	(\$4,469,814)	1.8%	(\$1,249,023)

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit, mutual benefit society domiciled in the state of Hawaii. The Company sells hospitalization, surgical and medical, major medical, prescription drug, vision, and dental insurance in the small group and large group markets in Hawaii.

During the 2011, 2012, and 2013 MLR reporting years, the Company operated in the small group and large group markets that were subject to the MLR reporting requirements under 45 CFR Part 158. As of December 31, 2013, the Company reported a total of 38,894 covered lives and \$155,058,206 in direct earned premium from policies subject to the MLR reporting and rebate requirements and a total of 39,244 covered lives and \$155,165,206 in direct earned premium from all health lines of business. Lines of business not subject to the MLR regulations at 45 CFR Part 158 include dental, vision, and life insurance products offered to policyholders separately from comprehensive health insurance coverage.

B. Management

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

Officers

<u>Name</u>	<u>Title</u>
John H. Felix	Chief Executive Officer
Reginald E. Baker	Executive Vice President & Treasurer
William C. McCorrison	President and Chief Operating Officer

Board of Directors

<u>Name</u>
John H. Felix
Gail Hannemann
Warren Price
William C. McCorrison

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

<u>Name</u>	<u>Title</u>
John H. Felix	CEO Attester
Reginald E. Baker	CFO Attester

C. Ownership

The Company is a not-for-profit, mutual benefit society, owned by its members.

D. Agreements

As of December 31, 2013, the Company reported that it was not party to any intercompany agreements.

E. Reinsurance

During 2011, 2012, and 2013, the Company had a quota share and an excess reinsurance agreement in place with an unaffiliated entity, neither of which were subject to the MLR reporting requirements. The Company does not have any assumed reinsurance agreements.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 733 Bishop Street, Suite 1800, Honolulu, HI, 96813. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted herein, the Company was not in compliance with §158.502 with regard to maintaining adequate documentation and other evidence necessary to enable CCHIO to verify that the MLR and rebates owed were calculated in accordance with federal regulations. Specifically, the

Company did not obtain accurate information or maintain documentation regarding the employee count of group policyholders, which is necessary to determine group size and market classification. The Company also was not able to provide adequate documentation supporting a reconciliation of incurred claims and earned premium between its supporting data files provided during the examination and the amounts reported on its 2013 MLR Annual Reporting Form. In addition, the Company did not maintain documentation supporting the QIA expenses reported on its MLR Annual Reporting Form for 2011, 2012, and 2013.

VI. Examination Results

The Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were filed by or before the required due date, but were not filed in the manner prescribed by the Secretary, as further described below.

For 2011 and 2012, the Company reported that it met the MLR standard of 80% for the small group market and 85% for the large group market, and thus did not pay rebates to its enrollees for these years. For 2013, the Company reported rebates of \$1,647,331 in the small group market and \$1,848,393 in the large group market.

Based on the errors found during the examination that could be quantified, MLRs for the 2013 reporting year were recalculated and resulted in an estimated additional rebate liability of \$2,757,711 in the small group market. Due to the lack of accurate documentation supporting group size and market classification determinations, incorrect reporting of business not subject to MLR requirements, incorrect reporting of incurred claims, as well as inadequate documentation supporting the Company's QIA expenses, we cannot, at this time, conclusively assess whether there were additional errors that could impact the Company's MLRs and corresponding rebates.

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 2011-2013 reporting years. Section 158.103 employs the applicable definitions of Large Employer, Large Group Market, Small Employer, and Small Group Market in section 2791 (e) of the PHS Act. Section 2791(e) of the PHS Act requires that small and large group market classifications be based on the *average number of employees 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 determine employer size in accordance with this definition, and therefore may have incorrectly determined the market classification for group policies in the period covered by this examination.

The documentation available to the examiners consisted of a copy of a recent billing invoice indicating the number of subscribers covered by that policy, as well as, in some cases, a copy of

a quarterly payroll tax filing or an original application for coverage indicating the total number of employees that employer employed at the time of application. The Company indicated that it used the number of employees enrolled in the employer's group plan at the end of the prior calendar year to determine group size and market classification for MLR reporting purposes, and that it was not aware of the requirement to use the "average number of employees on the business days of the calendar year preceding the coverage effective date" to make that determination. Therefore, based on the available documentation, the Company incorrectly determined the group size, and consequently the market classification, of its group policies.

In addition, based on a sample of 61 group policies tested, there were two policies where the Company indicated that it had verbally verified the group size with the employer group and was unable to provide supporting documentation consistent with the requirements of §158.502.

The precise impact of the failure to accurately determine group size and market classification cannot be conclusively determined due to the Company's lack of adequate documentation necessary to support its determinations.

Incorrect Reporting of Market Classification

In addition to not employing procedures to correctly determine the average number of employees of its group policyholders, the Company did not consistently assign policies to the correct market classification based on the (possibly incorrect) group size information that was available to the Company. Based on testing of the market classification of the Company's policies, one group policy in the sample of 61 policies tested was incorrectly classified by the Company as a large group market policy, when, based on the information available and the Company's (possibly incorrect) group size determinations, the policyholder was categorized as having fewer than 50 employees and should have been reported in the small group market for 2013. Consequently, \$90,303 in 2013 incurred claims and \$112,878 in 2013 earned premium were reallocated from the large group to the small group market.

Aggregation

Failure to Aggregate Data Separately for Excepted Benefits

Testing of the Company's market classification of its group policies revealed that the Company incorrectly reported the experience from stand-alone dental, vision, and other similar limited-scope products with its health insurance coverage subject to 45 CFR Part 158 rather than in the Other Health columns on the 2011, 2012, and 2013 MLR Annual Reporting Forms. As coverage for these limited-scope products is offered on a stand-alone and optional basis to group policyholders, they are considered excepted benefits under section 2791(c)(2) of the PHS Act and are not subject to 45 CFR Part 158. The MLR Annual Reporting Form Filing Instructions instruct issuers to report all business that is not group or individual health insurance coverage subject to 45 CFR Part 158 as Other Health on the MLR Annual Reporting Form.

Accordingly, during the examination, the Company was asked to provide detailed claim and premium information for each type of coverage that should have been reported as Other Health rather than as health insurance coverage in the small group and large group markets. The Company provided total claims and premiums for its Other Health products that were improperly

reported in the group markets for each year under examination, but because of limitations in its electronic records, it was unable to provide the amount separately for each product line. Therefore, the amounts provided by the Company could not be verified. The following table shows the aggregate incurred claims and earned premium for 2011, 2012, and 2013 provided by the Company and reallocated by the examiners from the small group and large group markets to the Other Health market:

Other Health Market Incorrectly Reported as Small and Large Group Market Health Insurance Coverage

	Small Group Market	Large Group Market	Total
Incurring Claims	\$9,105,045	\$2,110,510	\$11,215,555
Earned Premium	\$19,587,844	\$3,844,647	\$23,432,491

Based on the lack of adequate documentation supporting the Company's group size and market classification determinations, as well as incorrect reporting of business not subject to 45 CFR Part 158, the examiners were unable to conclusively determine whether the samples of policies, claims, and other items tested during the examination were correctly assigned to the appropriate markets in accordance with §158.120.

Incurred Claims

Improper Reporting of Direct Claim Reserves; Failure to Properly Report Contingent Benefit and Litigation Reserve

The Company improperly reported a direct claim reserve of \$1,885,000 in the small group market and \$1,015,000 in the large group market in Part 2, Line 2.4, of its 2012 MLR Annual Reporting Form. The Company did not report a direct claim reserve in either 2011 or 2013, nor did the actuarial opinion from its appointed actuary include such reserves in any year under examination. According to the MLR Annual Reporting Form Filing Instructions, direct claim reserves should represent the present value of amounts not yet due on claims. Based on detail provided by the Company, the amounts it reported as claim reserves should have instead been reported as part of the direct claim liability in Part 2, Line 2.2 on its 2012 MLR Annual Reporting Form.

The Company also included a litigation reserve related to the claims portion of pending litigation in the amount of \$1,500,000, which should have been reported in Part 2, Line 2.13, 3/31 column of the 2013 MLR Annual Reporting Form, separately from either the direct claim liability or reserves.

There was no net impact on the Company's MLRs from either of these errors.

Methodology for Estimating the Direct Claims Liability

We note that, based on a comparison of the direct claims liability reported on its 2011 and 2012 MLR Annual Reporting Forms and the true-up of the 2011 and 2012 claims as reported by the Company in subsequent years, it appears that the Company's estimates of the direct claims liability consistently and significantly exceeded the actual amounts subsequently paid by the

Company. Due to lack of sufficient documentation available to the examiners, including documentation related to the incorrect inclusion of excepted benefit coverage in the small and large group market experience, the examiners were unable to perform a detailed paid claim analysis. However, the analysis the examiners could perform of the 2011 and 2012 claims development as of March 31, 2014 indicates that the direct claims liability reported by the Company on its 2011 and 2012 MLR Annual Reporting Forms for the small group and large group markets ultimately exceeded the actual claims payments. The adjusted incurred claims reported in 2012 were overstated by \$2,044,252 in the small group market and \$1,942,861 in the large group market, approximately 3.7% of 2012 paid claims. However, the Company did not adjust its methodology to reflect these claims development trends and lower the estimate of the 2013 direct claims liability on its 2013 MLR Annual Reporting Form. We note that utilizing a methodology that consistently overestimates the direct claims liability could result in overstatement of incurred claims.

Claims Recovered Through Fraud Reduction Efforts

The Company did not report any recoveries of paid fraudulent claims, which §158.140(b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

Insufficient Support of Quality Improvement Activities

The Company improperly included some expenses that did not meet the definitions of QIA in §158.150. The Company also did not maintain adequate documentation detailing its QIA and QIA expenses. 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 the federal MLR regulations.

The Company contracted with Hawaii-Western Management Group, Inc. (HWMG), a third party administrator, for HWMG to provide all administrative services to the Company for a fee that is based on a percentage of gross earned premiums. The agreement was amended in 2011 to designate a portion of the total fee, 5.6% of gross earned premium, to represent various QIA services provided by HWMG. These included disease management, case management, care coordination, maintaining URAC accreditation, availability of patient portals and wellness programs, and health promotion and educational services. The Company indicated that it had calculated QIA expenses by applying the net percentage of time spent by HWMG employees on QIA against the total administrative fees paid by the Company to HWMG. However, the Company could not initially provide sufficient time studies of HWMG employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA.

The documentation initially provided by the Company included the job titles of HWMG employees and the percentage of each position that met the definitions of QIA, but no support for how these percentages were determined. Accordingly, the examiners performed alternative testing procedures, such as reviewing the job descriptions and other information obtained from the Company related to employees whose salaries were reported as QIA expenses, as well as reviewing surveys and time studies conducted by HWMG during the examination for selected

positions that described key activities performed by employees and substantiated the percentages qualifying as QIA. Based on these alternative procedures, it was determined that the Company's calculation of the percentage of time spent by HWMG employees on QIA was not reasonably supported by the evidence and that certain non-qualifying QIA expenses were included as QIA. The examiners determined that a reasonable estimate of the percentage of time spent on QIA by HWMG employees during 2011-2013 ranged between 9.6%-13.7%, rather than the 15%-19% range calculated by the Company.

Using the examiners' calculated percentages, based on available supporting documentation, and allowing for certain other expenses for outsourced services performed by other vendors, the total amount of reported QIA expenses for the three-year period under examination for the small group and large group markets that was deemed either to not be supported by adequate documentation or not meet the definition of a QIA was \$12,253,420. See the below table for further details on the adjustments by market for non-qualifying or unsupported QIA expense amounts.

Unreasonable Allocation of QIA Expenses between Markets

Based on substantive testing, QIA expenses were deemed to be unreasonably allocated among the Company's markets because the Company did not use an allocation method expected to yield the most accurate results as required by §158.170. The Company allocated QIA expenses between the small and large group markets based upon a weighted average where the group count in each market was weighted four times more than the membership count in each market. This methodology allocated 85% of QIA expenses to the small group market and 15% to the large group market, whereas an allocation based on membership would have resulted in close to a 50-50 split since the Company had similar total enrollment in each market. The Company provided several explanations for its weighted allocation methodology, but none adequately justified the heavier weighting given to the number of groups in general or the weighting factor of four specifically. The examiners therefore determined that the membership for each of the Company's markets, unweighted by the number of groups in each market, is a more reasonable basis for allocation and yields the most accurate results, as required by §158.170.

The following table shows the aggregate amount of QIA expenses that the Company reported for 2011, 2012, and 2013 and the aggregate amount recalculated as a result of the QIA examination findings.

Recalculated QIA Expenses for the Small Group and Large Group Markets for the 2013 Reporting Year

	Small Group Market	Large Group Market	Total
As Filed	\$21,315,317	\$4,298,349	\$25,613,666
Adjustment for Non-qualifying or Unsupported Amounts	(\$10,415,407)	(\$1,838,013)	(\$12,253,420)
Adjustment for Allocation Method	(\$4,006,420)	\$4,006,420	(N/A)
Recalculated and Reallocated Amount	\$6,893,490	\$6,466,756	\$13,360,246

Earned Premium

During the examination, it was noted that on the 2013 Supplemental Health Care Exhibit filed with its state regulator, the Company reported \$68,044,000 in direct earned premium for the large group market. However, on its 2013 MLR Annual Reporting Form, Part 1, Line 1.1 and Part 4, Line 2.1, CY column, the Company reported \$68,444,000. The Company indicated that the error was caused by an oversight when recording premium amounts on the MLR Annual Reporting Form. Consequently, direct earned premium for the large group market was decreased by \$400,000 as a result of the examination.

Taxes

Based upon substantive testing, the types of taxes and regulatory fees excluded from 2011, 2012, and 2013 earned premium on the Company's 2013 MLR Annual Reporting Form complied with §158.161 and §158.162. However, the Company erroneously omitted from the MLR calculation for the 2013 reporting year the PCORI fee, which should be excluded from the MLR denominator in accordance with §158.221(c). After reallocating the PCORI fee between the small and large group markets, as described and included in the table further below, the omitted amounts were estimated to be \$40,823 in the small group market and \$38,431 in the large group market. In addition, the Company's allocation methodology was determined to not be in compliance with §158.170, which requires allocation to be based on generally accepted accounting methods that are expected to yield the most accurate results.

The Company allocated federal income taxes and regulatory licenses and fees between the small and large group markets based upon a weighted average where the group count in each market was weighted four times more than the membership count in each market. This methodology resulted in the allocation of 85% of taxes and regulatory fee expenses to the small group market and 15% to the large group market. As discussed in the QIA section of this report, the Company's rationale for this methodology did not sufficiently justify generally weighting of the number of groups heavier than membership or the weighting factor of four specifically. In addition, the number of groups and the membership of each market were both deemed to not be a reasonable basis for a federal income tax allocation methodology, as neither the number of groups nor the membership of each market reflects the effective tax rate or tax expenses associated with or incurred by the Company for the operations in each market and therefore would not yield the most accurate results. Similarly, the number of groups was deemed to not be a reasonable basis for allocation of the PCORI fee, as this fee is generally assessed based on average membership. The number of groups and the membership of each market were deemed to also not be a reasonable basis for an allocation methodology for other regulatory licenses and fees, as the method would not yield the most accurate results.

After adjustment to reclassify stand-alone dental, vision and other policies not subject to 45 CFR Part 158 as discussed above, taxes and fees were re-allocated for each year under examination to produce more accurate results by utilizing: a derivative of underwriting gain/loss from MLR operations for each market (including the effect of other examination adjustments) for federal income taxes; the life-years in the small and large group markets for PCORI fees; and, earned premium for each market for other regulatory licenses and fees. As a result, it was estimated that on its 2013 MLR Annual Reporting Form, the Company had over-allocated taxes and regulatory fee expenses in the amount of \$54,326 to the small group market, and under-allocated taxes and regulatory fees in the amount of \$112,288 to the large group market and \$21,291 to the other

health market. The following table shows the aggregate amount of taxes and regulatory fees for 2011, 2012, and 2013 that were reallocated among the small group, large group, and the Other Health markets.

Reallocation of Taxes and Regulatory Fees between Markets

	Small Group Market	Large Group Market	Other Health Market	Total
As Filed	\$245,955	\$44,000	\$0	\$289,955
Adjustment for Allocation	(\$54,326)	\$112,288	\$21,291	\$79,254
Reallocated Amount	\$191,629	\$156,288	\$21,291	\$369,209

B. Credibility-Adjusted MLR and Rebate Amount

Due to the incorrect group size and market classification determinations, inadequate documentation, and incorrect reporting of business not subject to 45 CFR Part 158, the examiners were unable to determine whether the Company applied the correct credibility adjustment when it calculated and reported its MLRs, in accordance with §§158.230-158.232. The examiners were also unable to determine whether the Company’s final, credibility-adjusted MLRs were calculated correctly because the underlying data were not reported in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions.

C. Rebate Disbursement and Notice

According to its 2011 and 2012 MLR Annual Reporting Forms, the Company did not report any rebates owed as a result of the MLR calculations. The Company timely issued the 2011 Notice (of no rebate) in accordance with §158.251, which was only required for 2011, but failed to include adequate language as required by §158.251(a)(4) with regard to the MLR standard being met or exceeded. The Company did owe rebates in the small group market in 2013 and, based on 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 Hawaii Department of Insurance performed a financial examination of the Company in 2011 covering the period January 1, 2005 through December 31, 2009. There were twelve findings noted in that examination report, two of which were relevant to this examination: 1) the inability to verify the completeness of the Company’s claims; and 2) the lack of segregation of duties within the Company’s financial accounting.

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 have been brought to CCIIO's attention.

VIII. Conclusion, Recommendations, and Company Responses

CCIIO examined Hawaii Management Alliance Association's 2013 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 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 was not in compliance with all of the requirements of 45 CFR Part 158.

Due to the lack of accurate documentation supporting the Company's group size and market classification determinations, incorrect reporting of business not subject to 45 CFR Part 158, as well as inadequate documentation supporting the Company's QIA expenses, we cannot conclusively assess the impact of these examination findings on the Company's MLRs or whether there would be any additional impact on the Company's rebate liability in any of the markets in which it operates. Based on the cumulative effect of the findings that could be quantified, it is estimated that the Company's recalculated MLR in the small group market decreased, resulting in an estimated additional rebate liability of \$2,757,711. It is estimated that no additional rebate liability is due in the large group market.

As a result of this examination, CCIIO recommended the following:

Recommendation #1

The Company should adopt and implement procedures to ensure that it obtains and maintains the necessary information from its employer groups at the time of policy application and at renewal in order to determine the correct group size and market classification of its group policies, consistent with the applicable definitions under section 2791 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 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. The Company should adopt and implement procedures to ensure that it obtains and maintains accurate information from its employer groups in order to determine the correct group size and market classification of its group policies under the applicable employee counting method. The Company should utilize this information to accurately determine the market classification of its policies and aggregate data in accordance with the requirements of § 158.120(a).

Company Response

"HMAA has had procedures in place for determining the employer group size at the time of policy application, although HMAA acknowledges this information was not always focused

on the average number of employees in the previous calendar year. Classifications were determined using information provided by employers on HMAA's group application and in some situations a review of an employer's filings with the state unemployment office, payroll information, and/or a call to the group administrator.

HMAA will update its procedures to ensure that it obtains and maintains accurate information from its employer groups to determine group size and market classification consistent with section 4980H(c)(2) of the Internal Revenue Code. The employer's responsibility in this regard will also be reflected in the Group Service Agreement between HMAA and each employer.”

CCIIO Reply

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

Recommendation #2

The Company should adopt and implement procedures to ensure that all amounts are properly reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions, including the proper reporting of stand-alone dental, vision and other coverage in the Other Health columns on the MLR Form.

Company Response

“The exact division of premiums for optional coverages such as dental and vision remains a challenge due to the fact that most policies are priced initially and upon renewal on an aggregate basis (one premium rate encompassing all coverages). A project is currently underway to segregate premiums by line of business (medical vs. dental vs. vision) to improve the accuracy of this reporting. Until this project has been completed, premium allocations for "other" health insurance will be reviewed by HMAA's external actuaries to verify reasonableness.

Reporting of claims by line of business has and will continue to be readily available per employer client.”

CCIIO Reply

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

Recommendation #3

The Company should 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 original data sets used to compile the data included on the MLR Annual Reporting Form and documentation related to the number of employees of group policyholders. In addition, the Company’s records maintenance program should include maintaining adequate documentation, as may be necessary, to enable CCIIO to verify that activities included in QIA are qualifying expenses, as defined by §158.150.

Company Response

“HMAA acknowledges the findings with respect to records documentation and maintenance procedures and has updated its records maintenance program for storing original data sets used to compile data included on the MLR annual reporting form. HMAA outsources all Quality Improvement Activities and will take steps to modify its agreements with external vendors to clearly delineate fees for these activities.”

CCIIO Reply

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

Recommendation #4

The Company should adopt and implement procedures to ensure that all amounts are accurately reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions, including reporting earned premium in an accurate manner in accordance with §158.130, reporting reserves for specific known claims as part of its direct claims liability in Part 2, Line 2.1b, reporting any applicable litigation reserves in Part 2, Line 2.13, and excluding all allowable taxes and licensing and regulatory fees from premium in the MLR calculation in accordance with §158.221(c).

Company Response

“HMAA acknowledges the findings with respect to the above items and is working diligently on the reporting of earned premiums as described under Recommendation #2. Processes and procedures have been modified since 2013 to address issues in reporting the other items noted to ensure accurate reflection in subsequent MLR report submissions.”

CCIIO Reply

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

Recommendation #5

The Company should 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 determination, including for amounts paid to a third party administrator. 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

“In good faith, HMAA contracted with several external vendors, including its third-party administrator (TPA), to provide its customer base with services that meet the definition of QIA. Fees were paid by HMAA to the third-party vendors in good faith and in accordance with the contracts which were negotiated between independent, non-related parties. HMAA respectfully disagrees with the auditors' disallowance of certain fees paid by HMAA to its TPA for QIA.

Notwithstanding the above, HMAA accepts the finding and will 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 determination.”

CCIIO Reply

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

Recommendation #6

The Company should allocate QIA, as well as taxes and regulatory fees, to the appropriate market in an accurate manner utilizing a methodology that will yield the most accurate results, in accordance with §158.170.

Company Response

"MLR regulations and guidance direct insurers to use "best estimates" and methodologies that yield the most accurate results when reporting MLR figures. HMAA's annual financial filings were reviewed by external auditors following statutory accounting practices and principles on the basis prescribed by the State of Hawaii, Department of Commerce and Consumer Affairs, Insurance Division. Although not consistent with GMP, the intention and goal is still to report the most accurate results possible.

The auditors contracted by CCIIO took exception to our allocation of QIA expenses for the small and large group market, specifically our use of a weighted average to account for both the number of individual members within each market (small group vs. large group) and the number of employers within each market. The auditors felt the number of members alone was the best indicator since the majority of other insurers used this same approach and HMAA had no formal cost accounting process in place. We respectfully disagreed with this assumption and requested this finding be reviewed by CCIIO.

CCIIO subsequently replied to our request for an additional review and retained their original decision-making. Although we continue to disagree with the auditors' conclusions we will incorporate changes in how we contract and measure services and expenses that qualify for QIA going forward."

CCIIO Reply

While CCIIO accepts the Company's response and the corrective action plan, CCIIO wants to clarify that the ultimate determination and findings in the examination were made by CCIIO and not by CCIIO's contracted auditors. Additionally, CCIIO did not determine that the Company's allocation method is inherently invalid but rather that the Company did not adequately justify the methodology by providing sufficient supporting documentation to show it would yield the most accurate results for the applicable expenses or to support the quantification of the weighting for each activity for which such method was used.

Recommendation #7

The Company should re-file its 2013 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 rebate amounts due to its enrollees. Any underpaid rebates calculated by the Company as a result of the findings herein should 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

“HMAA will amend its 2013 MLR Annual Reporting Form and pay any additional rebates due no later than sixty (60) days from receipt of the Final MLR Examination report. It is understood that any excess rebates paid in prior years will be forfeited.”

CCIIO Reply

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

CCIIO thanks the Company and its staff for its cooperation with this Examination.