

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**HealthAssurance Pennsylvania, Inc.**  
(Harrisburg, Pennsylvania)  
for the  
2013 MLR Reporting Year

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



**OVERSIGHT GROUP**

---

March 18, 2016

In accordance with Title 45 of the Code of Federal Regulations (CFR), section 158.402, the Center for Consumer Information and Insurance Oversight (CCIIO) has completed an examination of the Medical Loss Ratio (MLR) Annual Reporting Form submitted by HealthAssurance Pennsylvania, Inc. for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, HealthAssurance Pennsylvania, Inc. (the Company) responded to each finding and recommendation. This final report, which will be made publicly available, incorporates those responses and CCIIO's evaluation of them.

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

---

Christina A. Whitefield, Acting Director  
Medical Loss Ratio Division  
Office of Oversight  
Center for Consumer Information and Insurance Oversight  
Centers for Medicare and Medicaid Services  
US Department of Health and Human Services

## Table of Contents

I.	Executive Summary .....	1
II.	Scope of Examination .....	1
III.	Summary of Key Findings .....	2
IV.	Company Overview .....	3
	A. Description, Territory, and Plan of Operation .....	3
	B. Management.....	3
	C. Ownership .....	4
	D. Agreements .....	4
	E. Reinsurance.....	5
V.	Accounts and Records.....	5
VI.	Examination Results .....	5
	A. MLR Data .....	5
	B. Credibility-Adjusted MLR and Rebate Amount.....	6
	C. Rebate Disbursement and Notice.....	7
	D. Compliance with Previous Recommendations .....	7
VII.	Impact of the Findings .....	7
VIII.	Subsequent Events .....	7
IX.	Conclusion, Summary of Recommendations, and Company Responses .....	7-8

## **I. Executive Summary**

The Center for Consumer Information and Insurance Oversight (CCIIO) has performed an examination of the 2013 Medical Loss Ratio (MLR) Annual Reporting Form for HealthAssurance Pennsylvania, 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 minor elements that are not fully compliant with the requirements of 45 CFR Part 158, but which do not impact consumer rebates. We recommend that the Company implement corrective actions to comply with various sections of 45 CFR Part 158, including ensuring that capitation expenses are properly reported.

The examination findings and resultant recalculation of the Company's MLR resulted in a net decrease of its reported MLR for the small group market of 0.8% and a net decrease of the MLR for the large group market of 0.9%. There was no change in the Company's reported MLR for the individual market. As the re-calculated MLRs exceed the individual and small group market MLR standard of 80% and the large group market MLR standard of 85%, respectively, there was no impact on the Company's rebate liability in any of the markets in which it operates.

## **II. Scope of Examination**

CCIIO examined the Company's 2013 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. 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 Affordable Care Act, generally requires health insurance companies to submit to the Secretary an annual report on their MLRs. The MLR is the proportion of premium revenue expended by a company on clinical services and activities that improve health care quality in a given state and market. 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 Forms 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 Summary of Recommendations section of this Report. The Company's corrective action was not reviewed for proof of implementation or subjected to any 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 Key Findings

Page	Summary of Key Findings
6	<b>Failure to report incurred claims as required by §158.140</b> – The Company overstated incurred claims due to errors in recording capitation expenses.

**This finding did not result in any change to the Company’s reported MLR for the individual market and resulted in a net reduction of the Company’s reported MLR for the small group market of 0.8% and a net reduction of the reported MLR for the large group market of 0.9% for the 2013 reporting year.** The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR for 2013, are shown in the following table. The amounts in the “As Recalculated” row reflect the adjustments made as of result of the overstated capitation expenses.

Recalculated Individual, Small Group and Large Group Market MLRs  
for the 2013 Reporting Year

	Individual Market			Small Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$8,223,747	\$7,577,109	116.0%	\$974,255,626	\$1,153,892,057	84.4%
As Recalculated	\$8,223,747	\$7,577,109	116.0%	\$965,180,450	\$1,153,892,057	83.6%
Difference	\$0	\$0	0.0%	(\$9,075,176)	\$0	(0.8%)

	Large Group Market		
	Numerator	Denominator	MLR
As Filed	\$900,829,571	\$998,621,171	90.2%
As Recalculated	\$891,811,034	\$998,621,171	89.3%
Difference	(\$9,018,537)	\$0	(0.9%)

The recalculated amounts did not impact the Company’s rebate liability for the 2013 reporting year as the MLR for the individual and small group markets were above the MLR standard of 80% and the MLR for the large group market was above the MLR standard of 85%.

## IV. Company Overview

### A. Description, Territory, and Plan of Operation

The Company is a for-profit insurer that sells fully insured preferred provider organization (PPO) and point-of-service (POS) policies in the group markets to both public and private employers in Pennsylvania. Enrollees are encouraged to use preferred providers to receive a higher level of coverage. The Company also sells a coordinated-care PPO, which incorporates the use of a primary care physician, and a high deductible plan that is intended to be paired with a health reimbursement account. The Company has additionally expanded the number of consumer-driven plan options available to employer groups. During 2011 and 2012, the Company also sold individual health insurance policies.

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 and it operated in the individual market during 2011 and 2012. As of December 31, 2013, the Company reported a total of 139,966 covered lives and \$624,917,608 in direct earned premium in policies subject to the MLR reporting and rebate requirements and a total of 188,069 covered lives and \$1,077,620,029 in direct earned premium for all health lines of business. The only line of business sold by the Company not subject to the MLR regulations in 45 CFR Part 158 is Medicare Advantage.

To the best of our knowledge, the Company is not currently under either financial or market conduct sanctions by a state regulatory agency in any state in which it does business.

### 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>
David W. Fields	CEO & President
Elaine R. Cofrancesco	Vice President & Treasurer
Dane J. Kreiss	CFO & Corporate Controller
John J. Ruhlmann	Vice President, Finance
Kevin J. Casey	Senior Investment Officer
Mary L. Osborne	Executive Vice President
Edward C. Lee	Vice President & Secretary

#### Directors

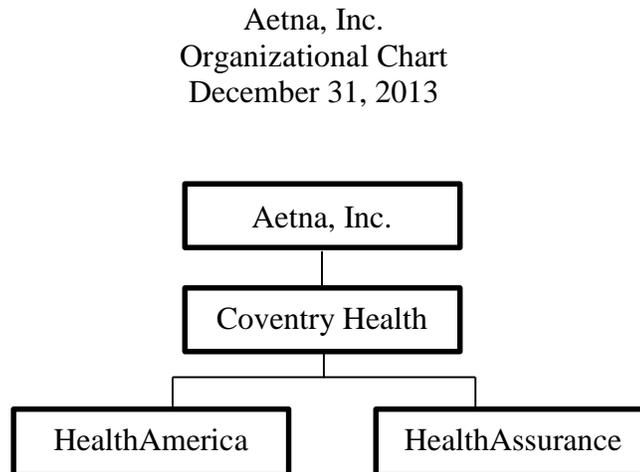
<u>Name</u>
Ronald M. Robinson
Mary L. Osborne
Gregory S. Martino

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>
David W. Fields	CEO Attester
Dane Kreiss	CFO Attester

### C. Ownership

The Company is a member of an insurance holding group system. The ultimate controlling entity of the Company is Aetna, Inc. The Company is a subsidiary of Coventry Health Care, Inc., which is wholly owned by Aetna, 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 MLR Annual Reporting Form:

1. Management agreement with Coventry Health Care, Inc.
2. Administrative Services Agreement with Coventry Health & Life Insurance Company, Coventry HealthCare Management Corporation and the Company
3. Credentialing Agreement with Carelink Health Plans, Inc.
4. Federal Tax Allocation Agreement with Coventry Health Care, Inc.
5. Guarantor Agreement with Coventry Health Care, Inc.
6. Behavioral Health Service Agreement with MHNet Specialty Services, LLC
7. Dental Management Service Agreement Group Dental Services, Inc.

## **E. Reinsurance**

During 2011, 2012 and 2013, the Company had a reinsurance agreement in place with Coventry Health & Life Insurance Company, with an original effective date of June 1, 2001, which has been renewed annually effective April 1 of each subsequent year. The agreement is an Excess Risk Reinsurance Agreement. 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 3721 TecPort Drive, Harrisburg, PA 17106. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

Except as noted below, the procedures performed did not identify any errors or irregularities in the data reported on the MLR Annual Reporting Form with regard to rebates and the provision of notices for the 2013 reporting year.

## **VI. Examination Results**

Except as noted in this report, the Company's 2011, 2012 and 2013 MLR Annual Reporting Forms were filed on the form and in the manner prescribed by the Secretary by or before the required due date.

For all three years under Examination, the Company met the MLR standard of 80% for the small group market and 85% for the large group market and thus was not required to pay rebates to its enrollees. In 2011 and 2012, the Company also met the MLR standard of 80% for the individual market, and thus was not required to pay rebates to its enrollees. The Company did not have any individual market policies subject to 45 CFR Part 158 in 2013.

### **A. MLR Data**

#### **Market Classification Policies and Procedures**

The Company has adopted policies and procedures for determining market classification and group size that are consistent with the requirements of §158.220, which stipulates that an issuer's MLR must be calculated separately for the large group, small group, and individual market within each state.

#### **Aggregation**

The samples of policies, claims and other items tested during the examination were correctly assigned to the appropriate states, markets, and lines of business in accordance with §158.120.

## **Incurred Claims**

With the exception of the overstatement of certain capitation payments explained below, based upon substantive testing and validation of the data elements underlying the incurred claims (as defined by §158.140) reported by the Company, incurred claims were accurately reported.

### *Incorrect reporting of capitation expenses*

During the examination, the Company discovered and reported that it had inadvertently overstated some 2013 incurred claims, resulting in a net overstatement on the 2013 MLR Annual Reporting Form of \$9,075,176 for the small group market and \$9,018,537 for the large group market.

The overstatement involved an error in accounting for capitation payments made to contracted providers. The error involved the inclusion of a capitation amount for one particular provider twice in incurred claims.

## **Claims Recovered Through Fraud Reduction Efforts**

The Company accurately reported recoveries of paid fraudulent claims, which §158.140(b) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

## **Quality Improvement Activities**

The expenses and programs for quality improvement activities (QIA) that the Company reported met the definition of allowable QIA in §158.150.

## **Earned Premium**

Based upon substantive testing, earned premium was properly reported on a direct basis and the data elements underlying the 2011, 2012 and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were compliant with §158.130.

## **Taxes**

Based upon substantive testing, the 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. Also based on substantive testing, taxes and regulatory fees were accurately reported and were reasonably allocated among the Company's states and markets, as required by §158.170 and in accordance with its Federal Income Taxes Allocation Agreement with Coventry Health Care, Inc. In its 2013 Annual Reporting Form, the Company reported that it allocated its federal and state income taxes to each state and market based on pre-tax underwriting gain or loss, which the examination confirmed.

## **B. Credibility-Adjusted MLR and Rebate Amount**

Based upon substantive testing, the Company correctly applied the credibility adjustment when the Company calculated and reported its MLRs, in accordance with §158.221. The Company's final, credibility-adjusted MLRs were calculated correctly in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions. Because the Company's MLRs exceeded the applicable standards in both the small group and large group markets, no rebates were due for 2011, 2012 or 2013.

### **C. Rebate Disbursement and Notice**

According to its 2011, 2012 and 2013 Annual Reporting Forms, the Company did not owe any rebates as a result of the MLR calculations. Based on substantive testing, the Company timely issued the 2011 Notice (of no rebate) in accordance with §158.251 and was not required to (and did not) issue any Notices for the 2012 or 2013 MLR reporting years.

### **D. Compliance with Previous Recommendations**

The Company indicated that neither CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. However, the Pennsylvania Insurance Department performed a financial examination of the Company covering the period January 1, 2006 through December 31, 2010. There were no findings noted in the examination report.

## **VII. Impact of the Finding**

The cumulative effect of all errors and findings did not impact MLR rebates since recalculating the MLR to correct for the incorrectly reported items did not cause the Company's MLR in any market to fall below the applicable MLR standard.

## **VIII. 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.

## **IX. Conclusion, Summary of Recommendations and Company Responses**

CCIIO has examined HealthAssurance Pennsylvania, 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 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The Company's 2013 MLR Annual Reporting Form did not comply with one of the requirements of 45 CFR Part 158. The effect of the examination findings and resultant recalculation of the Company's MLR did not result in any substantive change to its reported MLR for any of its markets in which it operates.

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

### **Recommendation #1**

The Company should report incurred claims in an accurate manner in accordance with 45 CFR 158.140.

Company Response

“The error that resulted in this recommendation was discovered on August 22, 2014 and was disclosed to CMS during the Examination, immediately after the facts were verified. We promptly enhanced our Internal Controls and utilized our ongoing Quality Assurance program to help ensure the integrity of reported information. Process improvements and additional controls which have been put in place include:

- Incorporated an improved and standardized analysis of the HHS filing compared to the SHCE and actuarial estimates. Material variances will be investigated, including a detailed review of source data by multiple disciplines that support the MLR filing process;
- Refined the extract of paid medical claims to ensure exclusion of claims covered under a capitation arrangement;
- Modified the manual data capture process to review for completeness based on a review of year end general ledger data and changes in subsequent run out months.”

CCIIO Reply

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

**Recommendation #2**

The Company should rectify the errors to reflect the findings stated herein in its 2015 MLR Annual Reporting Form. The Company should make the corrections in the prior year column of its 2015 MLR Annual Reporting Form (Part 3, Column PY2). Additionally, to assist with CCIIO’s assessment of whether there was a material impact on the Company’s MLR, the Company should upload supplemental documentation with its 2015 MLR Annual Reporting Form noting that the discrepancy between the data reported on the 2013 MLR Annual Reporting Form and the corresponding prior year data reported on the 2015 MLR Annual Reporting Form resulted from CCIIO’s examination finding.

Company Response

“As noted in our audit submission, we included the corrections outlined in the audit report in the Experience Year (EY) 2014 filing in the applicable PY1 and PY2 columns. The EY2013 adjustments reported in EY2014 filing will be carried forward to the EY2015 filing in the PY2 column per the MLR form filing instructions.”

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.