

Final
Report on the
Medical Loss Ratio Examination
of
AmeriHealth HMO, Inc.
(Philadelphia, Pennsylvania)
for the
2017 MLR Reporting Year

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



OVERSIGHT GROUP

February 3, 2025

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 AmeriHealth HMO, Inc. (the Company) for the 2017 reporting year, including 2017, 2016, and 2015 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.

A handwritten signature in blue ink, reading "Christina A. Whitefield", is positioned above the typed name and title.

Christina A. Whitefield, Director
Data and Analytics Division
Oversight Group
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Centers for Medicare & Medicaid Services
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 2017 Medical Loss Ratio (MLR) Annual Reporting Form for AmeriHealth HMO, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2017 MLR Annual Reporting Form contains some elements that are not compliant with the requirements of 45 CFR Part 158, and that impact consumer rebates.

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including: correctly determining the market classification of group policies; ensuring that incurred claims are properly and accurately calculated and reported; ensuring that expenses are allocated using the methodology that yields the most accurate results; ensuring that quality improvement activity (QIA) expenses meet the regulatory definition and are adequately supported with sufficient documentation; and, adopting and implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

The examination findings resulted in net changes to the Company's reported MLRs in the individual, small group, and large group markets in New Jersey and Pennsylvania, changing the Company's rebate liability for 2017 in the New Jersey large group market from \$0 to \$50,738.

II. Scope of Examination

CCIIO examined the Company's 2017 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 45 CFR Part 158 implements section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Patient Protection and Affordable Care Act (ACA), generally requires health insurance issuers to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and regulatory fees, expended by an issuer on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires an issuer to provide rebates to consumers if it does not meet the applicable MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form performed by CCIIO. The examination covered the reporting period of January 1, 2015 through December 31, 2017, including 2015, 2016, and 2017 experience and claims run-out through March 31, 2018. We conducted the examination in accordance with the CCIIO Medical Loss Ratio Examination Handbook (the Handbook). The Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and

timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Annual Reporting Form Filing Instructions.

The Company's response to each finding appears after the finding in the Conclusion, Corrective Actions, Company Responses, and CCIIO Replies section of this Report. The Company's implementation of the corrective actions was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's replies are based solely on a review of the Company's response. CCIIO reserves the right to review the actual implementation of the Company's corrective action and proposed action plan for each corrective action in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

| Page | Key Findings |
|-------------|---|
| 8 | Failure to assign the correct market classification, in accordance with the definitions at §158.103 – The Company incorrectly classified two New Jersey group policies as large group market policies, when the policies should have been reported in the small group market. As a result, a total of \$24,575 in incurred claims, and \$95,360 in earned premiums, were reallocated from the large group market to the small group market. |
| 8, 9 | <p>Failure to accurately report incurred claims, as required by §158.140 –The Company incorrectly included, as an adjustment to paid claims, a portion of its estimated advance payments of cost sharing reductions (CSR) received from HHS for the New Jersey individual market on its 2017 MLR Annual Reporting Form. As a result of this error, the Company understated its current year incurred claims by \$1,827,947 in the individual market.</p> <p>The Company improperly included in paid claims on its 2015, 2016, and 2017 Pennsylvania MLR Annual Reporting Forms the prescription drug claims of an affiliated entity. The error also resulted in an understatement of the Company's blended rate adjustment reported on Part 2, Line 2.15. As a result of the net effect of these errors, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by \$51,334 in the small group market and understated its incurred claims by \$87,393 in the Pennsylvania large group market.</p> <p>The Company incorrectly reported its prescription drug claims and pharmaceutical rebates on Part 1 of its 2015 MLR Annual Reporting Form. The error did not impact its MLR calculations as the amounts are reported for informational purposes only and are not included in the MLR calculation.</p> |

| | |
|-------|---|
| 9, 11 | <p>Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110 –The Company failed to properly report adjusted incurred claims in the prior year (PY2 and PY1) columns on Part 3 of its 2015, 2016, and 2017 MLR Annual Reporting Forms. This error did not impact the MLR calculations.</p> <p>The Company improperly included accruals for its medical incentive pool and bonuses in paid claims on Part 2, Line 2.1b, rather than on Part 2, Line 2.11b, as required, on its 2017 MLR Annual Reporting Form. This error did not impact the MLR calculations as total incurred claims were accurately reported.</p> <p>The Company improperly reported uncollectible premiums written off as an adjustment to premium written on Part 2, Line 1.1, rather than on Part 2, Line 1.7, as required, on its 2017 MLR Annual Reporting Form. This error did not impact its MLR calculations as total earned premium was accurately reported.</p> <p>The Company failed to properly report advance payments of the premium tax credit (APTC) that it received from HHS on its 2015 and 2017 MLR Annual Reporting Forms, in the New Jersey individual market. This error did not impact its MLR calculations.</p> <p>The Company failed to properly report dual contract experience related to premium and other expenses in the Dual Contract columns on its 2015, 2016, and 2017 Pennsylvania MLR Annual Reporting Forms. The Company properly disclosed the related claims experience in the Dual Contract columns in those years. This error did not impact its MLR calculations.</p> <p>The Company improperly reported Exchange user fees and risk adjustment user fees on Part 1, Line 3.1d, on its 2015, 2016, and 2017 MLR Annual Reporting Forms, rather than including the fees on Part 1, Line 3.3b, as required. This error did not impact its MLR calculations.</p> |
| 9 | <p>Failure to allocate fraud reduction expenses, as required by §158.170 – The Company improperly allocated its fraud reduction expenses between states and markets based on the pro rata proportion of member months, which did not yield the most accurate results, as required by §158.170. As a result of recalculating the allocation using the pro rata proportion of fraud recoveries, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by \$83,775 in the individual market, \$57,514 in the small group market, and \$62,046 in the large group market.</p> |
| 10 | <p>Failure to maintain adequate documentation, as required by §158.502 – The Company did not maintain the documents and other records necessary to enable CCIIO to verify that the MLRs and any rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not maintain the documents and other records necessary to enable CCIIO</p> |

| | |
|----|---|
| | to verify that the expenses reported as QIA met the definition set forth in §158.150. |
| 10 | Reporting of QIA expenses that did not meet the definition of a QIA set forth in §158.150 – The Company did not provide sufficient evidence that certain activities, transactions, and allocations selected for review met the definition of QIA at §158.150. As a result, the Company overstated its three-year aggregate QIA expenses on its 2017 MLR Annual Reporting Form by \$737,732 in the individual market, \$956,009 in the small group market, and \$608,815 in the large group market. |
| 10 | Failure to properly report the method of allocation of QIA expenses, as required by §158.170 – The Company failed to properly report the method used to allocate its QIA expenses to each state and market on its 2015, 2016, and 2017 MLR Annual Reporting Forms. This error did not impact the MLR calculations. |

These findings resulted in changes to the Company’s reported MLRs in the individual, small group, and large group markets in New Jersey, and in the small and large group markets in Pennsylvania.. The recalculated MLR for the New Jersey large group market fell below the MLR standard of 85%, resulting in a rebate liability of \$50,738 for 2017.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2017, for the states and markets in which the MLRs changed as a result of the examination, are shown in the following tables. The differences between the amounts in the “As Filed” and “As Recalculated” rows reflect the net impact of the adjustments made to reallocate the experience of certain misclassified policies, to restate incurred claims and QIA expenses, and to properly (re-)allocate fraud reduction expenses. The amounts in the “As Recalculated” rows for the individual and small group markets also reflect revisions for the recovered risk corridors payments that the Company received, and which are described in the Subsequent Events section of this report.

Recalculated MLRs¹ and Rebates for the Individual, Small Group, and Large Group Markets for the 2017 Reporting Year

New Jersey

| | Individual Market | | | |
|-----------------|-------------------|---------------|--------|--------|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | \$218,224,031 | \$242,154,602 | 91.4% | \$0 |
| As Recalculated | \$209,768,875 | \$242,154,602 | 87.9% | \$0 |
| Difference | (\$8,455,156) | \$0 | (3.5%) | \$0 |

| | Small Group Market | | | |
|--|--------------------|--|--|--|
|--|--------------------|--|--|--|

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.

| | Numerator | Denominator | MLR | Rebate |
|-----------------|---------------|---------------|--------|--------|
| As Filed | \$249,740,730 | \$270,986,547 | 93.4% | \$0 |
| As Recalculated | \$247,337,195 | \$271,081,907 | 92.5% | \$0 |
| Difference | (\$2,403,535) | \$95,360 | (0.9%) | \$0 |

| | Large Group Market | | | |
|-----------------|--------------------|---------------|--------|----------|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | \$134,215,262 | \$160,332,043 | 85.3% | \$0 |
| As Recalculated | \$133,583,337 | \$160,236,683 | 84.9% | \$50,738 |
| Difference | (\$631,925) | (\$95,360) | (0.4%) | \$50,738 |

Pennsylvania

| | Small Group Market | | | |
|-----------------|--------------------|--------------|--------|--------|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | \$8,485,875 | \$10,676,455 | 85.9% | \$0 |
| As Recalculated | \$8,409,362 | \$10,676,455 | 85.2% | \$0 |
| Difference | (\$76,513) | \$0 | (0.7%) | \$0 |

| | Large Group Market | | | |
|-----------------|--------------------|--------------|-------|--------|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | \$26,490,342 | \$31,822,137 | 86.9% | \$0 |
| As Recalculated | \$26,514,224 | \$31,822,137 | 87.0% | \$0 |
| Difference | \$23,882 | \$0 | 0.1% | \$0 |

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health insurer domiciled in Pennsylvania. The Company sells individual and group health maintenance organization (HMO) insurance policies in Pennsylvania and New Jersey.

During the 2015, 2016, and 2017 MLR reporting years, the Company operated in the individual, small group, and large group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2017, the Company reported a total of 30,622 covered lives and \$217,973,134 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158 and a total of 33,721 covered lives and \$218,936,424 in direct earned premium from all health lines of business. The Company's lines of business not subject to the MLR regulations at 45 CFR Part 158 include stand-alone vision and dental insurance, and Medicare Advantage plans.

B. Management

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

Officers

| <u>Name</u> | <u>Title</u> |
|--------------------------|-------------------------------------|
| Michael W. Sullivan | President & Chief Executive Officer |
| Lilton R. Taliaferro, Jr | Vice President & Secretary |
| Russell P. Heid | Vice President & Treasurer |

Directors

| <u>Name</u> |
|---------------------|
| Yvette D. Bright |
| Michael W. Sullivan |
| Gregory E. Deavens |
| Daniel J. Hilferty |
| Brian Loble |

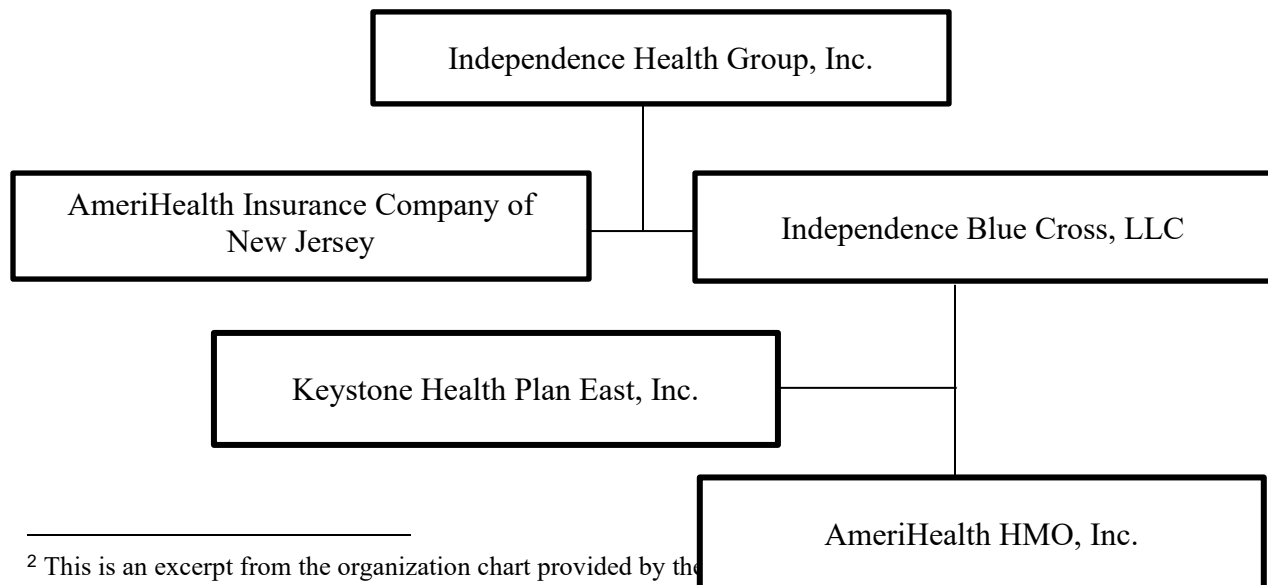
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2017 MLR Annual Reporting Form were:

| <u>Name</u> | <u>Title</u> |
|---------------------|---------------------|
| Michael W. Sullivan | CEO Attester |
| Russell P. Heid | CFO Attester |

C. Ownership

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

AmeriHealth HMO, Inc. Organizational Chart as of December 31, 2017²



² This is an excerpt from the organization chart provided by the relationship to the Company impacted the MLR examination.

D. Agreements

As of December 31, 2017, the Company had entered into the following intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. A Master Administrative Services Agreement with Independence Blue Cross, LLC, and various other affiliates.
2. A Premium Sharing Agreement with Keystone Health Plan East, Inc.
3. A Tax Sharing Agreement with the Independence Health Group, Inc. and other affiliated companies.

E. Reinsurance

During 2015, 2016, and 2017, the Company did not have any reinsurance agreements in effect that impacted the MLR reporting of its health insurance policies subject to the regulations at 45 CFR Part 158.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 1901 Market Street, Philadelphia, Pennsylvania, 19103. 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 CCIIO to verify that the MLRs and rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not provide sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definitions set forth set forth in §158.150.

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 2015, 2016, and 2017 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2015, 2016, and 2017 MLR Annual Reporting Forms were filed by the due date.

During 2015, 2016, and 2017, the Company reported that it met the applicable MLR standards in the individual, small group, and large group markets, and thus was not required to pay rebates to its enrollees in these markets. Based on the reporting errors found during the examination, the Company's MLRs for the 2017 reporting year were recalculated and resulted in a rebate liability of \$50,738 in the New Jersey large group market.

A. MLR Data

Market Classification

Incorrect Reporting of Market Classification

The Company did not consistently assign policies to the correct market classification based on the group size information that was available to the Company. Based on testing of the market classification of the Company's policies, two policies in the sample of 25 policies were incorrectly classified by the Company as large group policies when, based on the Company's group-size determinations, the policies should have been reported in the small group market for the 2015, 2016, and 2017 MLR reporting years. As a result, three-year aggregate incurred claims of \$24,575 and earned premium of \$95,360 were reallocated from the New Jersey large group market to the small group market.

Aggregation

Based upon the procedures performed, other than the incorrect market classifications determinations noted above, nothing additional came to our attention that would indicate that the samples of policies, claims, and other aggregation-related reporting elements tested during the examination were not correctly assigned to the appropriate states, markets and lines of business, in accordance with §158.120.

Incurred Claims

Incorrect Inclusion of Cost-Sharing Reductions (CSR) in Paid Claims

Due to a recording error, the Company incorrectly included on Part 2, Line 2.1b, on its 2017 MLR Annual Reporting Form as an adjustment to paid claims a portion of its estimated advance payments of CSR received from HHS for the individual market. When calculating the paid claim amount reported in the 3/31 column, the Company properly made an adjustment to increase its reported paid claims to remove the effect of the CSR funds received. However, the Company only removed \$1,856,529 of the total CSR amount of \$3,684,476 that was advanced. As a result of this error, the Company understated its current year incurred claims on Part 3, Line 1.2, by \$1,827,947 in the New Jersey individual market.

Improper Reporting of Incurred Claims

The Company improperly included in paid claims on its 2015, 2016, and 2017 MLR Annual Reporting Forms, in Pennsylvania, the prescription drug claims of an affiliated entity in the aggregate amount of \$208,645 in the small group market and \$1,614,773 in the large group market. In addition to a direct overstatement of its paid claims, the error also resulted in an understatement of the Company's blended rate adjustment by \$157,311 in the small group market and \$1,702,166 in the large group market. As the result of the net effect of these errors, the Company overstated its three-year aggregate incurred claims on its 2017 Pennsylvania MLR Annual Reporting Form by \$51,334 in the small group market, and understated its incurred claims by \$87,393 in the large group market.

Improper Reporting of Prior Year Incurred Claims

The Company improperly reported its incurred claims for prior years on Part 3, Line 1.1, PY2 and PY1 columns, on its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the 2017 MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 1.1, in the PY2 and PY1 columns must be equal to the amounts originally reported on the respective prior years' MLR Forms. This error did not impact the MLR calculation as Part 3, Line 1.1, is for informational purposes only and is not included in the MLR calculation.

Improper Reporting of Provider Medical Incentive Pool and Bonus Payments

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2017 MLR Annual Reporting Form, accruals for medical incentive pools and bonuses paid to providers. According to the 2017 MLR Annual Reporting Form Filing Instructions, accruals for medical incentive pools and bonuses should be reported on Part 2, Line 2.1b. This error did not impact the MLR calculation as the total incurred claims were accurately reported.

Incorrect Reporting of Prescription Drug Costs and Pharmaceutical Rebates

The Company incorrectly reported its prescription drug costs on Part 1, Line 2.2, and its pharmaceutical rebates on Part 1, Line 2.3, on its 2015 MLR Annual Reporting Form. The error did not impact the MLR calculations as the correct amounts of prescription drug claims and related pharmaceutical rebates were properly included in incurred claims on Part 1, Line 2.1. In addition, Part 1, Lines 2.2 and 2.3, are for informational purposes only and are not included in the actual MLR calculation.

Based upon the procedures performed, including the validation of a sample of incurred claims (as defined by §158.140) reported by the Company, other than the reporting errors noted above, nothing additional came to our attention that would indicate that the Company did not properly report the reconciled amount of cost sharing reductions received from HHS in accordance with §158.140(b)(1)(iii), or that the Company did not accurately report incurred claims.

Claims Recovered Through Fraud Reduction Efforts

Improper Allocation of Fraud Reduction Expenses

The Company's methodology for allocating its 2015, 2016, and 2017 fraud reduction expenses did not comply with §158.170(b)(1), which requires allocations to be based on generally accepted accounting methods that are expected to yield the most accurate results. The Company allocated its fraud reduction expenses to its states and markets for the 2015 – 2017 MLR reporting years based on the pro-rata proportion of member months, which did not yield the most accurate results. The total of allowable claims recovered through fraud reduction efforts, which are reported on Part 2, Line 2.17, is determined by taking the lesser of the fraud reduction expenses reported on Part 2, Line 2.17a, and the total fraud recoveries that reduced paid claims as reported on Part 2, Line 2.17b. Therefore, the Company should have used total fraud recoveries to allocate its fraud reduction expenses as that would yield the most accurate results. Thus, we reallocated and recalculated the Company's fraud reduction expenses accordingly. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by \$83,775 in the individual market, \$57,514 in the small group market, and \$62,046 in the large group market, in New Jersey and Pennsylvania.

Based upon the procedures performed, other than the improper allocation of fraud reduction expenses noted above, nothing additional came to our attention that would indicate that the Company did not accurately report the 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 expense.

Quality Improvement Activities (QIA)

Insufficient Documentation of QIA

The Company did not maintain adequate documentation to support the expenses it reported as QIA. Section 158.502 requires an issuer to maintain all documents and other evidence necessary to enable CCIIO to verify compliance with the definitions and criteria set forth in 45 CFR Part 158 and that the MLR and any rebates owed were calculated and provided in accordance with the regulation.

The largest category of QIA expenses reported by the Company was the salaries and related benefits of the employees whose roles and responsibilities included activities that it asserted met the definition at §158.150. However, the Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios used to allocate salaries to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the titles and job descriptions of staff whose salaries were reported as QIA, the percent of staff time allocated to QIA, and other information obtained from the Company related to the employees whose salaries were reported as QIA expenses.

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

As a result of performing the alternative procedures noted above, we determined that some of the job functions of staff whose salaries were reported as QIA did not meet the regulatory definition of a QIA at §158.150. In addition, some of the expenses for cost centers that the Company included in QIA were either for activities that did not qualify as QIA, as defined at §158.150, or for which it was unable to provide adequate documentation that proved that the activities, and their associated costs, met the requirements for qualifying as a QIA. As a result, the Company overstated its three-year aggregate QIA on Part 3, Line 1.3, on its 2017 MLR Annual Reporting Form by a total of \$737,732 in the individual market, \$956,009 in the small group market, and \$608,816 in the large group market, in New Jersey and Pennsylvania.

Failure to Disclose Allocation Methodologies

The Company failed to report the method used to allocate its QIA expenses on its 2015, 2016, and 2017 MLR Annual Reporting Forms, as required by §158.170 (b). This error did not impact the MLR calculations.

Based upon the procedures performed, other than the insufficient documentation for certain QIA expenses and the improper inclusion of expenses for activities that do not qualify as QIA, as noted above, nothing additional came to our attention that would indicate that other QIA expenses were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

Earned Premium

Improper Reporting of Earned Premium

The Company improperly reported its uncollectible premiums written off as an adjustment to premium written on Part 2, Line 1.1, on its 2017 MLR Annual Reporting Form. According to the 2017 MLR Annual Reporting Form Filing Instructions, premium balances determined to be uncollectible and written off should be reported on Part 2, Line 1.7. This error did not impact the Company's MLR calculations.

Improper Reporting of APTC Received

The Company did not report the amount of APTC it received for the individual market on Part 2, Line 1.14, on its 2017 MLR Annual Reporting Form, as required by the 2017 MLR Annual Reporting Form Filing Instructions. This error did not impact the MLR calculation as the total amount of earned premium was reported correctly, and the line reserved for APTC is for informational purposes only and is not included in the actual MLR calculation.

Failure to Properly Report Dual Contract Experience

The Company failed to report certain dual contract experience, such as premium, in the Dual Contract column(s) on Part 1 and Part 2, on its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the MLR Annual Reporting Form Filing Instructions, if an issuer chooses to treat the out-of-network experience of an affiliate that provides out-of-network coverage as if it was related to the contract providing the in-network coverage, then the issuer must report the out-of-network experience in the Dual Contract columns. The Company properly reported the related claims experience in the Dual Contract columns, but failed to disclose the experience related to premium and other expenses. This error did not impact its MLR calculations as the Dual Contract column is for informational purposes only and the Company properly included its dual contract experience in the amounts reported in the 3/31 columns, which were used in the MLR calculations.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that earned premium was not properly reported on a direct basis and the data elements underlying the 2015, 2016, and 2017 premium reported on the Company's 2017 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Improper Reporting of Exchange User Fees and Risk Adjustment User Fees

The Company improperly combined and reported Exchange user fees and risk adjustment user fees on Part 1, Line 3.1d, on its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the MLR Annual Reporting Form Filing Instructions, Exchange user fees and risk adjustment user fees should be reported on Part 1, Line 3.3b. This error did not impact the MLR calculations.

Based upon the procedures performed, other than the reporting error noted above, nothing additional came to our attention that would indicate that the taxes, licensing, and regulatory fees

excluded from 2015, 2016, and 2017 earned premium on the Company's 2017 MLR Annual Reporting Form did not comply with §158.161 and §158.162, or were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170, and in accordance with its federal tax allocation agreement.

Federal Risk Adjustment Program

Based upon the procedures performed, nothing came to our attention that would indicate that the Company did not properly report the expected transfer amounts under the federal risk adjustment program, for the applicable benefit year, in accordance with §158.140(b)(4)(ii).

B. Credibility-Adjusted MLR and Rebate Amount Calculation

Based upon the procedures performed, the Company correctly applied the credibility adjustment, in accordance with §§158.230-232, when it calculated and reported its MLRs. The Company's credibility-adjusted MLRs were calculated using the correct formula, in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions.

Based on the Company's reported final MLRs, which exceeded the applicable standards in all states and markets for 2015, 2016, and 2017, the Company used the correct procedures to determine that no rebates were due for those years in those states and markets. As detailed in this report, the examination identified errors in the data underlying the Company's MLR and rebate calculations, resulting in changes to the Company's MLRs.

C. Rebate Disbursement and Notice

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

D. Compliance with Previous Recommendations

The Company indicated that neither CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. The Pennsylvania Insurance Department performed a financial examination of the Company in 2017 covering the period January 1, 2012 through December 31, 2016. The financial examination resulted in one finding, which did not impact the Company's federal MLR calculation or reporting.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2017 MLR Annual Reporting Form.

On April 27, 2020, the Supreme Court ruled that section 1342 of the ACA created an enforceable government obligation to pay issuers risk corridors amounts as calculated under the risk

corridors formula.³ In 2020, the Company recovered previously unpaid amounts for risk corridors for the 2015 and 2016 benefit years, but not all of these recoveries were included on the Company's 2015-2018 MLR Annual Reporting Forms⁴. On December 30, 2020, CCIIO issued guidance to issuers as to how they should revise their 2015-2018 MLR Annual Reporting Forms to reflect risk corridors payment amounts recovered as a result of the litigation, and to pay any rebates, or additional rebates, to enrollees, if required⁵. The previously unpaid amounts for risk corridors recovered by the Company for the 2015 and 2016 benefit years impacted its 2017 MLR Annual Reporting Form because the 2015 and 2016 data are included on that Form⁶. The amounts described in this examination report incorporate the Company's revisions related to the recovered risk corridors amounts.

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

CCIIO examined AmeriHealth HMO, Inc.'s 2017 MLR Annual Reporting Form to assess compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2017 MLR Annual Reporting Form contained some elements that were not compliant with the requirements of 45 CFR Part 158. Based on the adjustments made as a result of the examination findings, the Company owes rebates of \$50,738 in the New Jersey large group market.

As a result of this examination, consistent with § 158.402(e), CCIIO directs the Company to implement the following corrective actions:

Corrective Action #1

The Company must adopt and implement procedures to ensure that it accurately determines and reports the correct group size and market classification of its group policies, consistent with section 2791(e) of the PHS Act and §158.103.

Company Response

The Company acknowledges that the two policies classified as Large group should have been classified as Small group based on the Company's group size determination process in place for 2017. Effective for 2018, the company has elected to use the same employee counting method as

³ *Maine Community Health Options v. United States*, 140 S. Ct. 1308 (2020).

⁴ https://www.regtap.info/uploads/library/RC_CSRandMLR_091516_v1_5CR_091516.pdf. See also, MLR Annual Reporting Form Instructions for 2015 through 2018, available at https://www.cms.gov/cciio/Resources/Forms-Reports-and-Other-Resources/index#Medical_Loss_Ratio.

⁵ Center for Consumer Information & Insurance Oversight, Insurance Standards Bulletin Series – INFORMATION, Treatment of Risk Corridors Recovery Payments in the Medical Loss Ratio and Rebate Calculations (Dec. 30, 2020), available at <https://www.cms.gov/files/document/mlr-guidance-rc-recoveries-and-mlr-final.pdf>.

⁶ The amount of previously unpaid risk corridors recovered by the Company for the 2015 and 2016 benefit years may have also impacted its 2015 and 2016 MLR Annual Reporting Forms because that data is also included on those forms.

that used for the HHS-operated risk adjustment program as outlined in the CCIIO Technical guidance issued April 9, 2018.

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 properly and accurately calculates and reports incurred claims on its MLR Annual Reporting Form in accordance with §158.140, including ensuring that it accurately reports incurred claims, prescription drug costs, and pharmaceutical rebates.

Company Response

The Company understated incurred claims in the individual market by inadvertently including a portion of estimated advance payments of cost sharing reductions (CSR) received from HHS on its 2017 MLR Annual Reporting Form. The error did not occur in other years. Procedures were enhanced when the error was brought to the Company's attention.

Incurred claims for the AmeriHealth HMO PA small and large group segments incorrectly included claims from an affiliate. The impact was negligible due to offsets from the blended rate adjustment. A procedure to address the issue was put in place for the 2019 filing.

The amount of Prescription drug costs and Pharmacy rebates were incorrectly reported on Part 1 of the 2015 MLR form and were carried forward to the 2017 MLR Filing. This oversight had no impact on the Company's MLR rebate percentages and did not reoccur in subsequent years.

CCIIO Reply

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

Corrective Action #3

The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with §158.110 and the applicable MLR Annual Reporting Form Filing Instructions, including ensuring that it properly reports: adjusted incurred claims; its medical incentive pool and bonuses; dual contract experience; premium written off; the amount of APTC received from HHS; and, Exchange and risk adjustment user fees.

Company Response

The Company has adopted and implemented procedures to ensure the items listed above are reported on the correct line of the MLR Annual Reporting Form. Procedures for Premium written off, dual contract experience, and the amount of APTC received from HHS were implemented and reflected in the 2018 MLR report. Procedures for Adjusted prior year claims, medical incentive pool and bonuses, and Exchange and risk adjustment user fees were implemented and put in place for the 2019 MLR report. These reporting items do not impact the calculation of the MLR rebate percentages.

CCIIO Reply

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

Corrective Action #4

The Company must adopt and implement procedures to ensure the methodology used to allocate expenses to each state and market yields the most accurate results, in accordance with §158.170(b)(1), including the allocation of fraud reduction expenses.

Company Response

The Company implemented a new procedure for the allocation of fraud reduction expenses in 2019. Total fraud reduction expenses are allocated to each state and market based on actual fraud recoveries. Internal staff costs and external vendor expenses are allocated separately based on their respective impact by company and market.

CCIIO Reply

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

Corrective Action #5

The Company must adopt and implement a comprehensive MLR records maintenance program under which it maintains all documentation and evidence necessary to enable CCIIO to verify compliance with each element in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should include creating and retaining documentation, as may be necessary, to enable CCIIO to verify that expenses included in QIA are for activities that meet the definition of QIA. For salary-related expenses classified as QIA, this includes performing time studies of employee activities or other quantitative analyses of salary ratios to support allocating any such amounts to QIA, as only those salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities are allowable QIA expenses.

Company Response

AmeriHealth developed an in-depth process to accurately identify and document all QIA activities which includes detailed time studies, questionnaires, job description reviews, and vendor level support. A process to standardize and implement these activities was put in place across the organization to ensure leadership agreed to the calculation. This process was enhanced in 2020 across the Independence organization to ensure all entities are fully compliant.

CCIIO Reply

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

Corrective Action #6

The Company must implement procedures to ensure that any expenses classified as QIA meet the requirements at §158.150 and that sufficient documentation exists to support such determinations. The Company must perform additional analyses to adequately differentiate

between activities that do and do not qualify as QIA, and perform additional quantitative analyses to ensure that the appropriate percentage of each activity or transaction that qualifies as a QIA under §158.150 is reported on its MLR Annual Reporting Form.

Company Response

AmeriHealth developed an in-depth process to accurately identify and document all QIA activities which includes detailed time studies, questionnaires, job description reviews, and vendor level support. A process to standardize and implement these activities was put in place across the organization to ensure leadership agreed to the calculation. This process was enhanced in 2020 across the Independence organization to ensure all entities are fully compliant.

CCIIO Reply

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

Corrective Action #7

The Company must adopt and implement procedures to ensure the accurate reporting of the methods used to allocate expenses, including QIA expenses, to each state and market, in accordance with §158.170.

Company Response

Based on discussion and findings during the examination the Company adopted and implemented procedures to ensure accurate reporting of Expense allocations to each market, including QIA expenses. Allocated expenses are reviewed by the functional leaders in conjunction with FP&A before they are approved. The new process was implemented in 2020 for the 2019 filing.

CCIIO Reply

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

Corrective Action #8

The Company must re-file its 2017 MLR Annual Reporting Form to rectify the errors and findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable, including calculating any additional rebates due to its enrollees. Any underpaid rebates calculated by the Company and due 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

The Company has reviewed the exam findings and agrees with the proposed adjustments. The Company will complete a re-filing of the 2017 MLR form inclusive of the adjustments referenced in this report and will process additional rebate payments within 60 days of issuance of the final report.

CCIIO Reply

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

The corrective actions provided in this report should be shared with and adopted by, as applicable, any affiliated entities of the Company, such as its parent or subsidiaries, if any, that are similarly subject to the MLR reporting and rebate requirements of 45 CFR Part 158.

CCHIO thanks the Company and its staff for its cooperation with this examination.