Final

Report on the

Medical Loss Ratio Examination

of

AmeriHealth Insurance Company of New Jersey
(Cranbury, New Jersey)

for the

2017 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
200 Independence Avenue SW
Washington, DC 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 Insurance Company of New Jersey (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.

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U.S. Department of Health & Human Services

Table of Contents

I. Executive Summary

The Center for Consumer Information & Insurance Oversight (CCIIO) has performed an examination of the 2017 Medical Loss Ratio (MLR) Annual Reporting Form for AmeriHealth Insurance Company of New Jersey (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: 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; ensuring the proper reporting of the methods used to allocate QIA expenses; ensuring that federal income taxes are properly and accurately calculated and allocated; 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 decreases to the Company's reported MLRs in the individual, small group and large group markets in New Jersey, changing the Company's large group market rebate liability for 2017 from $0 to $754,453.

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 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 individual market on its 2017 MLR Annual Reporting Form. As a result of this error, the Company understated the current year incurred claims by $22,943,602 in the individual market. 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.
8, 10, 11	**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. 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 calculation as total incurred claims were accurately reported. 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 the MLR calculations as total earned premium was accurately reported. 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 individual market. This error did not impact the MLR calculations. 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.
9, 11	**Failure to allocate expenses accurately, 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 $50,234 in the individual market, and understated its incurred claims by $35,611 in the small group market and $67,503 in the large group market. The Company improperly allocated the New Jersey State guarantee fund assessment reported on Part 1, Line 3.2a, basing it 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 premium, the Company understated its taxes, licensing, and regulatory fees by $625,898 in the individual market, and overstated its earned premium by $36,694 in the small group market and $664,750 in the large group market.
9	**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 to verify that the expenses reported as QIA met the definition set forth in §158.150.
9	**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 the three-year aggregate QIA expenses on its 2017 MLR Annual Reporting Form by $2,723,973 in the individual market, $1,541,888 in the small group market, and $1,869,302 in the large group market.
9	**Failure to properly report the method of allocation of QIA expenses, as required by §158.170** – The Company failed to properly report the method it used to allocate its QIA expenses to each market on its 2015, 2016, and

	2017 MLR Annual Reporting Forms. This error did not impact the MLR calculations.
10	**Failure to calculate and allocate federal income taxes accurately, as required by §158.162 and §158.170 -** The Company improperly included in its federal income taxes the tax effect of the $860,827 it estimated that it would be assessed in future years by the New Jersey State guaranty fund. In addition, the Company allocated the tax effect of other, properly included, 2017 New Jersey State guaranty fund assessments 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 these errors and subsequent re-allocation, the Company's three-year aggregate taxes, licensing, and regulatory fees were understated by $754,529 in the individual market, and overstated by $363,304 in the small group market and $689,968 in the large group market.

These findings resulted in decreases to the Company's reported MLRs in the individual, small group, and large group markets. The recalculated MLR for the large group market fell below the MLR standard of 85%, resulting in a rebate liability of $754,453 for 2017.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2017, 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 restate incurred claims, QIA expenses, and to properly re-allocate fraud reduction expenses and federal income taxes. 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 MLRs[1] and Rebates for the Individual, Small Group, and Large Group Markets for the 2017 Reporting Year

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$908,546,818	$945,142,667	96.1%	$0
As Recalculated	$843,110,889	$943,762,240	89.3%	$0
Difference	($65,435,929)	($1,380,427)	(6.8%)	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$516,263,064	$598,840,131	86.2%	$0
As Recalculated	$511,949,839	$599,240,129	85.4%	$0
Difference	($4,313,225)	$399,998	(0.8%)	$0

[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.

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$711,160,874	$836,552,222	85.0%	$0
As Recalculated	$709,359,075	$837,906,940	84.7%	$754,453
Difference	($1,801,799)	$1,354,718	(0.3%)	$754,453

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health insurer domiciled in New Jersey. The Company sells individual and group health insurance policies in 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 131,461 covered lives and $867,069,787 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158 and a total of 138,667 covered lives and $1,119,541,621 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

Name	**Title**
Michael W. Sullivan	President & Chief Executive Officer
Lilton R. Taliaferro, Jr	Vice President & Secretary
Russell P. Heid	Vice President & Treasurer

Directors

Name

Yvette D. Bright
Gregory E. Deavens
Brian Lobley
Michael Walsh Sullivan

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

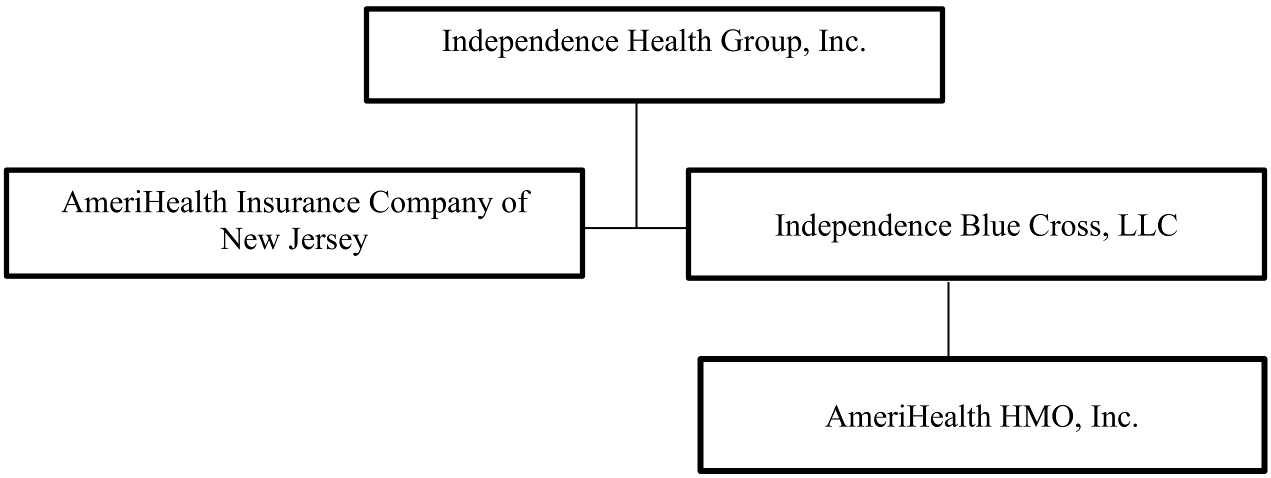
Name **Title**

Michael W. Sullivan CEO Attester
Russell P. Heid CFO Attester

C. Ownership

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

AmeriHealth Insurance Company
Organizational Chart as of December 31, 2017[2]



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 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. <u>Accounts and Records</u>

[2] This is an excerpt from the organization chart provided by the Company and includes only those entities whose relationship to the Company impacted the MLR examination.

The Company's main administrative and financial reporting office is located at 259 Prospect Plains Road, Cranbury, New Jersey, 08512. 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 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 errors found during the examination, the Company's MLRs for the 2017 reporting year were recalculated and resulted in a rebate liability of $754,453 in the large group market.

A. MLR Data

Market Classification
The Company adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2015-2017 reporting years. The samples of policies tested during the examination were assigned to the correct market classification.

Aggregation
Based upon the procedures performed, nothing came to our attention that would indicate that the samples of policies, claims and other aggregation-related reporting elements tested during the examination were not correctly assigned to the appropriate 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 $6,469,163 of the total CSR amount of $29,412,765 that was advanced. As a result of this error, the Company understated its current year incurred claims on Part 3, Line 1.2, by $22,943,602 in the individual 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, of its 2015, 2016, and 2017 MLR Annual Reporting Forms. According to the 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, of its 2017 MLR Annual Reporting Form, accruals for medical incentive pool and bonuses paid to providers. According to the 2017 MLR Annual Reporting Form Filing Instructions, accruals for medical incentive pool and bonuses should be reported on Part 2, Line 2.11b. 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 calculation as the correct amounts of prescription drugs 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 $50,234 in the individual market, and understated its incurred claims by $35,611 in the small group market and $67,503 in the large group market.

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 expenses.

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 of a QIA at §158.150. However, the Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios it 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 the 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 the three-year aggregate QIA on Part 3, Line 1.3, on its 2017 MLR Annual Reporting Form by a total of $2,723,973 in the individual market, $1,541,888 in the small group market, and $1,869,302 in the large group market.

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 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 2015 and 2017 MLR Annual Reporting Form, as required by the 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.

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 that 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 Calculation, and Allocation, of Federal Income Taxes for New Jersey State Guaranty Fund Assessment
The Company improperly included in its federal income taxes reported on Part 1, Line 3.1a, on its 2017 MLR Annual Reporting Form the tax impact from its $860,827 estimate of the New Jersey State guaranty fund amounts it would be assessed in future reporting years. According to §158.162 and the 2017 MLR Annual Reporting Form Filing Instructions, Part 1, Line 3.1a, should only include federal income taxes attributable to the MLR reporting year. Therefore, the tax effect of estimated future guaranty fund assessments should not be reported (in the current MLR reporting year).

In addition, while the Company properly adjusted federal income taxes for the New Jersey State guaranty fund assessment made against it for 2017, it improperly used the pro-rata proportion of member months to allocate to each market the tax effect of the assessment, which does not comply with §158.170(b)(1). According to §158.170(b)(1), allocations must be based on generally accepted accounting methods that are expected to yield the most accurate results. The allocation method that would yield the most accurate results here is the pro-rata proportion of premium, the same method by which the guaranty fund assessed the Company. As a result of these errors and our subsequent re-allocation, the Company's three-year aggregate taxes, licensing, and regulatory fees on Part 1, Line 3.1a, were understated by $754,529 in the individual market, and overstated by $363,304 in the small group market and $689,968 in the large group market.

Improper Allocation of State Taxes for New Jersey State Guaranty Fund Assessment

The Company's methodology for allocating the 2017 New Jersey State guaranty fund assessment reported with its State taxes on Part 1, Line 3.2a, on its 2017 MLR Annual Reporting Form also did not comply with §158.170(b)(1), which, as stated above, requires allocations to be based on generally accepted accounting methods that are expected to yield the most accurate results. The Company allocated the effect of the New Jersey State guaranty fund assessment to each market based on the pro-rata proportion of member months. The allocation method that would yield the most accurate results is the pro-rata proportion of premium, the same method by which the guaranty fund made the assessment against the Company. As a result of this error and our subsequent re-allocation, the Company's three-year aggregate State taxes, licensing, and regulatory fees on Part 1, Line 3.2a, on its 2017 MLR Annual Reporting Form were understated by $625,898 in the individual market, and overstated by $36,694 in the small group market and $664,750 in the large group market.

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 and allocation errors 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 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 and 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 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 State of New Jersey Department of Banking and Insurance performed a financial examination of the Company in 2018 covering the period January 1, 2012 through December 31, 2016. There were no findings as a result of the financial examination.

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 Forms[4]. 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 additional rebates to enrollees, if required[5]. 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 Form[6]. The amounts

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[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 this data is also included on those forms.

described in this examination report incorporate the Company's revisions related to the recovered amounts for risk corridors.

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

CCIIO examined AmeriHealth Insurance Company of New Jersey's 2017 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. 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 $754,453 in the 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 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 re-occur in other years. Procedures were enhanced when the error was brought to the Company's attention during the examination.

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. Further controls were put in place when the error was brought to the Company's attention during the examination.

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

Corrective Action #2
The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with §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; 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 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 #3
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, State guaranty fund assessments, and federal income taxes.

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.

The company will ensure any guaranty fund assessments subsequent to 2017 are allocated based on the methodology used by the guaranty fund when the assessment is made.

Adjusted Federal Income Taxes are allocated to state and market based on the percentage of total Adjusted Net Underwriting Gain or Loss.

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

Corrective Action #4
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 #5
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 determination. 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 #6
The Company must adopt and implement procedures to ensure the accurate reporting of the methods used to allocate expenses, including QIA expenses, to each 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 Financial Planning & Analytics 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 #7
The Company must adopt and implement procedures to ensure that it reports its taxes, licensing, and regulatory fees in compliance with §158.162, including accurately calculating federal income taxes.

Company Response
The Company has updated its procedures for reporting taxes, licensing, and regulatory fees to address the handling of accrued amounts for future Guarantee Fund assessments and the allocation of assessments to state and market. The updated procedure allocates premium based assessments based on the pro-rated proportion of premium of each market.

Adjusted Federal Income Taxes are allocated to all lines of business based on the percentage of total Adjusted Net Underwriting Gain or Loss.

The new procedure was implemented in 2019. Amounts reported in the 2018 MLR filing reflect the new policy as there were no guarantee fund assessments in 2018.

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.

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