Final

Report on the

Medical Loss Ratio Examination

of

Fallon Community Health Plan
(Worcester, Massachusetts)

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, D.C. 20201

OVERSIGHT GROUP

May 14, 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 Fallon Community Health Plan (the Company) for the 2017 MLR 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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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 Fallon Community Health Plan (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, but which do not impact consumer rebates.

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including: obtaining and maintaining adequate information to accurately determine the market classification of group policies; ensuring that incurred claims are properly and accurately calculated and reported; ensuring that quality improvement activity (QIA) expenses are adequately supported with sufficient documentation and accurately calculated; ensuring the accurate calculation and reporting of earned premiums, taxes, risk adjustment transfer amounts, and life-years; and, adopting and implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

To the extent that the findings could be quantified, the recalculation of the Company's 2017 MLRs resulted in net changes to its reported MLRs in the individual and small group merged market, and in the large group market. As the recalculated MLRs continued to exceed the applicable MLR standards, these findings did not have an impact on the Company's rebate liability in any markets.

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). Massachusetts imposes a higher MLR standard in the individual and small group markets than that required by federal law. Therefore, in accordance with §158.211, the Massachusetts MLR standard is applied for purposes of the federal MLR and rebate calculations in the individual and small group markets. The standards applicable to the Company in Massachusetts for 2015-2017 were 88% in the individual and small group merged market, 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 employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders –**The Company did not obtain from each group policyholder, at the time of initial application or policy renewal, the average total number of employees (ATNE) employed on the business days of the calendar year preceding the coverage effective date, as required by the regulation, and therefore may not have correctly determined each group's size and market classification.
9-13	**Failure to maintain adequate documentation, as required by §158.502 –** The Company did not maintain the documents and other evidence 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 was unable to provide documentation or any other evidence supporting its determination of each group policyholder's size for all 58 small and large group policies tested. 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. The Company did not maintain the documents and other records necessary to enable CCIIO to verify the accuracy of direct premium written reported on its 2017 MLR Annual Reporting Form. The Company was unable to

	provide adequate documentation to support the premium revenue for seven out of the 30 small group policies tested. The precise impact of the inability to support premium written in the small group market cannot be conclusively determined. The Company was unable to provide adequate documentation to enable CCIIO to verify the accuracy of life-years reported in the small group and large group markets on Part 3, Line 3.1, in the prior year (PY2 and PY1) columns on its 2017 MLR Annual Reporting Form. This error did not impact the MLR calculation as the experience in those markets was fully credible.
9, 10	**Failure to accurately report incurred claims, as required by §158.140 –** The Company was unable to adequately reconcile the detailed data files of claims paid to the amounts reported on its 2017 MLR Annual Reporting Form. The impact of this error on the Company's MLR calculations could not be determined. The Company improperly included in paid claims the amount paid to its pharmacy benefit manager (PBM) that exceeded the PBM's reimbursement to pharmacies. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $1,237,769 in the individual market, $2,380,981 in the small group market, and $6,770,635 in the large group market. The Company failed to deduct from paid claims the full amount of prescription drug rebates received in 2017. As a result, the Company overstated its current year incurred claims by $772,782 in the individual market, $978,503 in the small group market, and $4,630,300 in the large group market. The Company did not properly deduct from its individual market incurred claims a prescription drug credit of $725,000 that it received from its PBM for the 2017 MLR reporting year. As a result, the Company overstated its current year incurred claims by $725,000 in the individual market. The Company improperly included in paid claims on its 2015, 2016, and 2017 MLR Annual Reporting Forms the amounts paid to a third-party vendor for secondary network savings. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $255,451 in the individual market, $855,580 in the small group market, and $2,909,224 in the large group market. The Company improperly included in its paid claims on its 2015, 2016, and 2017 MLR Annual Reporting Forms the administrative fees paid to a third-party vendor for vision claims adjudication. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $12,168 in the individual market, $22,240 in the small group market, and $79,624 in the large group market. The Company failed to include in paid claims on its 2017 MLR Annual Reporting Form some of the capitation payments that it made to providers,

	and incorrectly included claims costs that were the responsibility of its capitated provider. As a result of the net effect of these errors, the Company understated its current year incurred claims by $3,081,020 in the individual market, $4,860,954 in the small group market, and $29,614,607 in the large group market.
10, 11	**Reporting QIA expenses that did not meet the definition of a QIA set forth in §158.150 –**Due to a recording error, the Company incorrectly reported on its 2015, 2016, and 2017 MLR Annual Reporting Forms information technology (IT) costs as a QIA expense. As a result, the Company overstated its three-year aggregate QIA expenses on its 2017 MLR Annual Reporting Form by $678,454 in the individual market, $1,440,396 in the small group market, and $4,903,102 in the large group market.
11, 12	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110 –** The Company improperly reported its 2015 earned premium on Part 3, Line 2.1, in the PY2 column on its 2017 MLR Annual Reporting Form, in the individual and small group markets, reporting an amount that was different than that reported in the CY column on its 2015 MLR Annual Reporting Form. As a result, the Company's three-year aggregate earned premium on its 2017 MLR Annual Reporting Form was understated by $3,636,189 in the individual market, and overstated by $2,771,967 in the small group market. The Company improperly reported its 2016 taxes on Part 3, Line 2.2, in the PY1 column on its 2017 MLR Annual Reporting Form in the individual and small group markets, reporting an amount that was different than that reported in the CY column on its 2016 MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on its 2017 MLR Annual Reporting Form by $63,161 in the individual market, and $134,143 in the small group market. The Company did not correctly combine its life-years for the individual and small group merged market in the PY2 column on its 2017 MLR Annual Reporting Form, as required. This error did not impact the MLR calculation, as the formula is based on the amounts reported in the Total columns, which were reported correctly.
12	**Failure to accurately report ACA Risk Adjustment Program Payments, as required by §158.140(b)(4)(ii)** – The Company incorrectly reported the transfer amounts expected from the federal risk adjustment program on Part 3, Line 1.6, on its 2017 MLR Annual Reporting Form, in the individual and small group markets. As a result, the Company overstated its current year risk adjustment transfer amount by $182,687 in the individual market, and $225,870 in the small group market.

Based on the adjustments that could be quantified, the examination findings changed the Company's reported MLRs in the individual and small group merged market, and in the large group market. The recalculated MLRs in all three markets continued to exceed the applicable MLR standards, and thus did not result in rebates being owed. Due to the Company's use of the incorrect standard for determining group size and market classification, and its lack of adequate documentation necessary to support its market determinations for its group policies, we cannot at this time, conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

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 properly restate incurred claims, QIA expenses, earned premium, taxes, and risk adjustment transfer amounts.

Recalculated MLRs[1] and Rebates for the Individual, Small Group, and Large Group Markets for the 2017 Reporting Year

Massachusetts

	Individual and Small Group Merged Market[2]				
	Numerator	Denominator	MLR	Rebate – Individual Market	Rebate – Small Group Market
As Filed	$369,290,888	$403,332,788	91.6%	$0	$0
As Recalculated	$368,282,095	$404,394,314	91.1%	$0	$0
Difference	($1,008,793)	$1,061,526	(0.5%)	$0	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$936,698,528	$1,006,515,790	93.1%	$0
As Recalculated	$947,020,250	$1,006,515,790	94.1%	$0
Difference	$10,321,722	$0	1.0%	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit health insurer domiciled in Massachusetts. The Company sells individual and group health insurance policies in Massachusetts.

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

[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.

[2] Pursuant to §158.220, the Company's data for the Massachusetts individual and small group markets was merged for purpose of calculating the MLR. However, the rebate is calculated separately for each market.

CFR Part 158. As of December 31, 2017, the Company reported a total of 77,661 covered lives and $464,935,210 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158 and a total of 135,487 covered lives and $1,243,785,638 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 providing administrative services to self-funded group health plans and Medicare supplemental policies.

B. Management

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

Officers

Name	Title
Richard P. Burke	President & Chief Executive Officer
Ann K. Tripp	Treasurer
B. John Dill	Clerk
Kevin Grozio	Chief Financial Officer
Emily West	Chief Operating Officer
James Gentle	Chief Compliance Officer
Thomas Ebert	Chief Medical Officer
Christine Cassidy	Chief Communications Officer
Jill Lebow	Chief Human Resources Officer

Directors

Name	
David W. Hillis	Frederick M. Misilo Jr.
Richard P Burke	Janet S. Rico
James R. Buonomo	Joseph N. Stolberg
B. John Dill	Peter Straley
David Friend	Ann K. Tripp
Karen J. Landry	Linda M Young

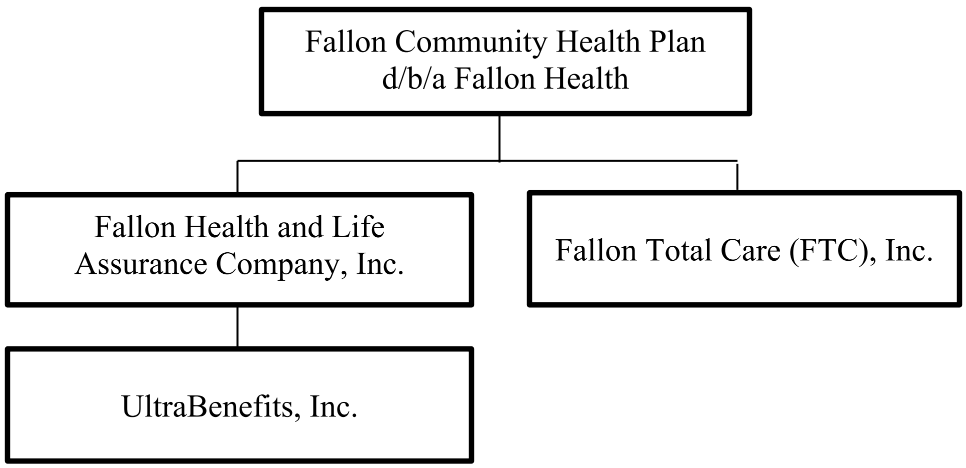
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2017 MLR Annual Reporting Form were:

Name	Title
Richard P. Burke	CEO Attester
Kevin Grozio	CFO Attester

C. Ownership

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

Fallon Community Health Plan
Organizational Chart as of December 31, 2017[3]



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. Administrative Service Agreement with Fallon Health and Life Assurance Company, Inc.
2. Administrative Service Agreement with UltraBenefits, Inc.
3. Service Agreement with Fallon Total Care, Inc.

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>

The Company's main administrative and financial reporting office is located at 10 Chestnut Street, Worcester, Massachusetts, 01608-2810. 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 did not comply 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 its group size

[3] 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.

determinations and market classifications of all 58 group policies tested, the expenses reported as QIA met the definitions set forth set forth in §158.150, and the accuracy of direct premium written and life-years reported in the group markets.

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.

The Company reported that it met or exceeded 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 and other errors found during the examination that could be quantified, the Company's MLRs for the 2017 reporting year were recalculated and did not result in any change to the Company's rebate liability in any market. However, due to the Company's use of the incorrect standard for determining group size and market classification, and its lack of adequate documentation necessary to support its determinations for certain group policies, we cannot, at this time, conclusively assess whether there were additional errors that could have impacted the Company's 2017 MLRs and rebate liability.

A. MLR Data

Market Classification

Incorrect Procedures for Determining Group Size and Market Classification

The Company adopted policies and procedures for determining group size and market classification that are inconsistent with the definitions in §158.103 applicable to the 2015-2017 reporting years. Section 158.103 uses the applicable definitions of Large Employer, Large Group Market, Small Employer, and Small Group Market in section 2791 (e) of the PHS Act. Section 2791(e) of the PHS Act requires that small and large group market classifications be based on the average total number of employees (ATNE) on the business days of the calendar year preceding the coverage effective date. The Company did not obtain the necessary information from group policyholders to correctly determine employer size, instead relying on the number of employees at the time of initial policy application or renewal. Therefore, it may have incorrectly determined the market classification of some group policies for the period covered by this examination.

The Company provided copies of then-recent group policyholder billing invoices, and copies of policyholder premium payment checks. The Company was unable to provide the original or renewal applications, or any other documentation to verify the number of employees, for any of the 58 group policies tested. Therefore, based on the available documentation, the examiners could not confirm whether the Company correctly determined group size, and consequently the market classification, of its group policies.

Due to the Company's failure to use the correct standard for determining group size and market classification, which could have impacted the market classification of some groups, and its lack of adequate documentation necessary to support its group size determinations for the 58 group policies tested, we cannot conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

Aggregation

Based upon the procedures performed, other than the possible incorrect group size and market classification 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 markets and lines of business in accordance with §158.120.

Incurred Claims

Inadequate Reconciliation of Incurred Claims

The Company was unable to provide adequate documentation supporting the amounts reported for 2017 incurred claims for the individual, small group, and large group markets on its 2017 MLR Annual Reporting Form. The Company was unable to adequately reconcile the detailed data files provided as part of the examination of claims paid in 2017 to the amounts reported on its 2017 MLR Annual Reporting Form, or to its 2017 Annual Statement. As a result, the examiners were unable to conclusively determine the accuracy of the incurred claims reported on the Company's 2017 MLR Annual Reporting Form.

Improper Reporting of Prescription Drug Costs

The Company improperly included in its paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms, the amount paid to its PBM for pharmacy claims, an amount that exceeded the total amount the PBM paid the pharmacy providers for prescriptions filled for the Company's enrollees. According to §158.140(b)(3)(ii), if a third-party vendor reimburses the provider at one amount but bills the issuer a higher amount to cover its claims processing, network development, utilization management, administrative costs, as well as profits, then the amount that exceeds the reimbursement to the provider must not be included in incurred claims. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $1,237,769 in the individual market, $2,380,981 in the small group market, and $6,770,635 in the large group market.

Failure to Correctly Deduct Prescription Drug Rebates from Incurred Claims

The Company failed to deduct the full amount of prescription drug rebates received for 2017 from paid claims, as required by §158.140(b)(1)(i). As a result, the Company overstated its current year incurred claims on its 2017 MLR Annual Reporting Form by $772,782 in the individual market, $978,503 in the small group market, and $4,630,300 in the large group market.

Incorrect Reporting of Incurred Claims

The Company did not properly deduct from incurred claims a prescription drug credit of $725,000 received from its PBM for the individual market for the 2017 MLR reporting year. According to the agreement with the PBM, if the Company's aggregate drug costs in any particular market do not reflect a specified, guaranteed pricing level, the PBM provides a credit back to the Company as a discount. As a result of this error, the Company overstated its current year incurred claims by $725,000 in the individual market.

Improper Inclusion of Amounts for Secondary Network Savings in Incurred Claims
The Company improperly included in its paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms the amounts it paid to a third-party vendor for secondary network savings. According to §158.140(b)(3)(i), amounts paid to third party vendors for secondary network savings must not be included in incurred claims. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $255,451 in the individual market, $855,580 in the small group market, and $2,909,224 in the large group market.

Improper Inclusion of Administrative Fees in Incurred Claims
The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2015, 2016, and 2017 MLR Annual Reporting Forms the administrative fees paid to a third-party vendor for vision claims adjudication. According to §158.140(b)(3)(ii), amounts paid to third party vendors for administrative fees and claims processing must not be included in incurred claims. As a result, the Company overstated its three-year aggregate incurred claims on its 2017 MLR Annual Reporting Form by $12,168 in the individual market, $22,240 in the small group market, and $79,624 in the large group market.

Incorrect Reporting of Capitation Payments
The Company failed to include in its paid claims on Part 2, Line 2.1b, on its 2017 MLR Annual Reporting Form the capitation payments to various physician groups contracted to provide clinical services to the Company's enrollees. In addition, the Company incorrectly included in its paid claims medical and prescription drug costs that were the contractual responsibility of one of its capitated providers. As a result of the net effect of these errors, the Company understated its current year incurred claims by $3,081,020 in the individual market, $4,860,954 in the small group market, and $29,614,607 in the large group market.

Based upon the procedures performed, including validating a sample of incurred claims (as defined by §158.140), other than the errors noted above, nothing additional came to our attention that would indicate that the Company did not accurately report incurred claims.

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

Quality Improvement Activities (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. Based on the alternative procedures performed, other than the incorrect calculation of QIA expenses noted below, we concluded that the expenses tested met the definition at §158.150, were reasonably included as qualifying QIA, and were reasonably allocated.

Incorrect Reporting of Information Technology (IT)-Related QIA Expenses
The Company incorrectly calculated certain IT-related QIA costs reported on its 2015, 2016, and 2017 MLR Annual Reporting Forms. As a result of this error, the Company overstated its three-year aggregate QIA expenses on Part 3, Line 1.3, on its 2017 MLR Annual Reporting Form by $678,454 in the individual market, $1,440,396 in the small group market, and $4,903,102 in the large group market.

Based upon the procedures performed, other than the insufficient documentation for certain QIA expenses and the incorrect allocation of certain IT related QIA costs noted above, nothing additional came to our attention that would indicate that QIA expenses were not accurately reported and reasonably allocated among the Company’s markets, as required by §158.170.

Earned Premium

Improper Reporting of Earned Premium
The Company improperly reported its earned premium for 2015 on Part 3, Line 2.1, PY2 column on its 2017 MLR Annual Reporting Form in the individual and small group markets. According to the MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 2.1, in the PY2 and PY1 columns must be equal the amounts originally reported on the respective prior years’ MLR Forms. As a result, the Company understated its three-year aggregate earned premium on its 2017 MLR Annual Reporting Form by $3,636,189 in the individual market, and overstated its three-year aggregate earned premium by $2,771,967 in the small group market.

Failure to Maintain Adequate Documentation
The Company did not maintain the documents and other evidence necessary to verify that the premium earned was properly and accurately calculated for the 2017 MLR reporting year. The Company was unable to adequately support the direct premium written reported for seven of 30 policies. The Company could not reconcile or explain variances between the premium transactions invoiced to the policyholders and the amount reported by the Company as premium written for the 2017 MLR reporting year. As a result, the examiners were unable to verify the accuracy of the premium earned reported for the seven policies tested during the examination.

Based upon the procedures performed, other than the 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 Reporting Taxes, Licensing, and Regulatory Fees

The Company improperly reported taxes on Part 3, Line 2.2, PY1 column of its 2017 MLR Annual Reporting Form, in the individual and small group markets. According to the MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 2.1, in the PY2 and PY1 columns must be equal the amounts originally reported on the respective prior years' MLR Forms. As a result, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on its 2017 MLR Annual Reporting Form by $63,161 in the individual market, and $134,143 in the small group market.

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, and were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

ACA Risk Adjustment Program

Incorrect Reporting of Risk Adjustment Program Payments

Due to a recording error, the Company incorrectly reported the payments expected from the Massachusetts Risk Adjustment Program on Part 3, Line 1.6, on its 2017 MLR Annual Reporting Form. According to §158.140(b)(4)(ii), receipts related to the risk adjustment program should be deducted from incurred claims. The Company correctly reported the net payments expected from Massachusetts on Part 2, Line 1.10, in the amount of $1,691,851 in the individual market and $2,091,761 in the small group market. However, the Company reported net payments of $1,874,538 in the individual market, and $2,317,631 in the small group market on Part 3, Line 1.6. As a result, the Company overstated its current year risk adjustment transfer amount on its 2017 MLR Annual Reporting Form by $182,687 in the individual market, and $225,870 in the small group market.

Based upon the procedures performed, other than the incorrect reporting of risk adjustment transfer amounts noted above, nothing additional 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 2017 benefit year, as required by §158.140(b)(4)(ii).

B. Credibility-Adjusted MLR and Rebate Amount Calculation

Failure to Maintain Adequate Documentation

The Company did not maintain the documents and other evidence necessary to verify the life-years reported for the small group and large group markets on Part 3, Line 3.1, in the PY2 and PY1 columns on its 2017 MLR Annual Reporting Form. The Company reported three-year aggregate life years in excess of 75,000 in the small group and large group markets on the 2017 MLR Annual Reporting Form. As both markets were fully credible, this error did not impact the Company's credibility adjustment or the MLR calculation.

Failure to Properly Aggregate Life-Years

The Company did not properly combine its life-years for the individual and small group markets on Part 3, Line 3.1, in the PY2 column on the 2017 MLR Annual Reporting Form, as required by the 2017 MLR Reporting Form Filing Instructions. According to the 2017 MLR Annual Reporting Form Filing Instructions, issuers who merge their individual and small group markets in accordance with state law should combine the life-years in calculating the merged market MLR. This error did not impact the MLR calculation, as the MLR calculation was based on the amounts reported in the Total columns.

Based upon the procedures performed, other than the life-year reporting error noted above, the Company correctly applied the credibility adjustment, in accordance with §§158.230-158.232, 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 markets for 2015, 2016, and 2017, the Company used the correct procedures to determine that no rebates were due for those years. As detailed in this report, the examination identified errors in the data underlying the Company's MLRs calculations, resulting in changes to the Company's 2017 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 Commonwealth of Massachusetts Division of Insurance performed a financial examination of the Company in 2016 covering the period January 1, 2012, through December 31, 2014. 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. No post-December 31, 2017 significant events were brought to CCIIO's attention.

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

CCIIO examined Fallon Community Health Plan'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 2017 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 cumulative effect of the examination findings that could be quantified, the recalculation of the Company's MLRs in the individual and small group merged market, and the large group market, resulted in substantive changes to its reported MLRs, which continued to exceed the applicable MLR standards. As a result, no rebates were due to the Company's enrollees in any market**.** However, due to the Company's use of the incorrect standard for determining group size and market classification, and its lack of adequate documentation necessary to support its group size determinations, which could have impacted the market classification of some groups, we cannot conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

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 obtains and maintains accurate information from its employer groups at the time of policy application or at renewal in order to determine the correct group size and market classification of its group policies, consistent with the definitions in section 2791(e) of the PHS Act and the applicable requirements of 45 CFR Part 158 and related technical guidance. This should include, but not be limited to, obtaining, and maintaining documentation of, the average total number of employees for the calendar year preceding the coverage effective (or renewal) date.

Company Response

Fallon withdrew from the Large Group Commercial market starting in 2021, with the last policies closing in mid-2022. Therefore, from 2023 forward, all of Fallon's Commercial MLR business is in the Massachusetts merged market. Additionally, the 2024 MLR report (to be submitted in July 2025) will be the last one to include any large-group experience (which, from 2022, is minimal). Fallon has implemented a process that accurately determines the correct group size and market classification.

CCIIO Reply

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

Corrective Action #2

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 included in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should include adequately storing documentation related to the number of employees of group policyholders, as well as maintaining documentation, as may be necessary, to enable CCIIO to verify the accuracy of direct premium written, and life-years.

The records maintenance program should also 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 salaries and related benefits 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 salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities are allowable QIA expenses.

Company Response
Fallon has implemented a comprehensive MLR reporting and records maintenance program that reconciles all key reporting amounts to (as applicable):

- the company's audited financials,
- the company's annual Supplemental Health Care Exhibit (SHCE) filing,
- Connector Care annual premium rate filings,
- prior-year MLR filings
- Massachusetts Connector-reported premium.

Please also see the response to Corrective Action #4 with respect to QIA.

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 accurate reporting of incurred claims in accordance with §158.140 and the MLR Annual Reporting Form Filing Instructions, including ensuring: the proper reconciliation of incurred claims; that amounts paid to its PBM in excess of the cost of prescription drugs paid to pharmacies for its enrollees are not included in incurred claims; the accurate deduction of prescription drug rebates and prescription drug cost credits received; that expenses for secondary network savings and administrative fees paid to third party vendors are not included in incurred claims; the proper reporting of claims subject to capitation arrangements; and the proper reporting of the federal risk adjustment transfer amounts.

Company Response
As noted above, Fallon now reconciles all key reporting amounts (including those noted above) to the appropriate source/cross-reference. Please note also that some of these are no longer applicable:

- Beginning in CY2024, Fallon has moved from Pharmacy spread-pricing to pass-through.

- After CY2021, all medical claims are now paid fee-for-service. The large and significant capitation arrangement with Reliant Medical Group that was of central importance in the 2017 MLR audit is no longer in force.

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 accurate reporting of QIA in accordance with §158.150, including properly calculating amounts reported as QIA.

Company Response
As noted above, Fallon now reconciles MLR-reported QIA with what is reported on the annual SHCE.

- Annual surveys are conducted in five functional expense areas to identify and quantify QIA-related expenses in accordance with §158.150 and §158.151. Areas that are surveyed include:
    - Clinical Integration
    - Behavioral Health Services
    - Pharmacy
    - Quality
    - Information Technology.
- Workbooks outlining criteria for qualifying expenses have been developed and are completed annually by functional are leaders and Financial Planning & Analysis.
    - Expenses include salary, benefits and vendor cost
    - Expenses are reconciled to the G/L and payroll register.

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

Corrective Action #5
The Company must adopt and implement procedures to ensure that it properly and accurately reports earned premium, in accordance with §158.110 and the applicable MLR Annual Reporting Form Filing Instructions, including the accurate reporting of prior year earned premium, taxes, and life-years in the merged markets.

Company Response
As noted above, Fallon now reconciles all key reported amounts (including premium, taxes and life-years) to the relevant sources/cross-references.

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.