Final

Report on the

Medical Loss Ratio Examination

of

**Hometown Health Plan, Inc.**
(Reno, Nevada)

for the

2022 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

CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR CONSUMER INFORMATION & INSURANCE OVERSIGHT

**OVERSIGHT GROUP**

April 16, 2026

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 Hometown Health Plan, Inc. (the Company) for the 2022 reporting year, including 2022, 2021, and 2020 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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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 2022 Medical Loss Ratio (MLR) Annual Reporting Form for Hometown Health Plan, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2022 MLR Annual Reporting Form contains numerous 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: (1) obtaining and maintaining adequate information to accurately determine and assign group policies to the correct market classification; (2) ensuring that incurred claims are properly and accurately reported; (3) implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions; (4) adopting and implementing a comprehensive MLR records maintenance program; (5) ensuring that quality improvement activity (QIA) expenses meet the regulatory definition and are adequately supported with sufficient documentation, and that the allocation method is properly disclosed; and (6) ensuring that taxes and licensing and regulatory fees are accurately calculated and reported.

The examination findings resulted in net decreases to the Company's reported MLRs in the individual, small group, and large group markets, increasing the Company's rebate liability for the 2022 reporting year by $172,386 in the Nevada large group market.

## II. Scope of Examination

CCIIO examined the Company's 2022 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, 2020 through December 31, 2022, including 2020, 2021, and 2022 experience and claims run-out through March 31, 2023. 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 |
|---|---|
| 7, 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. |
| 8 | **Failure to accurately report incurred claims, as required by §158.140 –** The Company failed to deduct from paid claims on its 2022 MLR Annual Reporting Form the amounts of 2022 prescription drug rebates it received from its pharmacy benefit manager (PBM). As a result, the Company overstated its current year incurred claims by $988,931 in the individual market, $465,368 in the small group market, and $608,764 in the large group market.<br><br>The Company failed to report capitation payments to providers on its 2022 MLR Annual Reporting Form. As a result, the Company understated its current year incurred claims by $37,068 in the individual market, $20,357 in the small group market, and $28,536 in the large group market. |
| 8, 9, 10, 11 | **Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110 –** The Company improperly included in direct claim liability on its 2020, 2021, and 2022 MLR Annual Reporting Forms, an explicit margin of safety for potential variations from its estimate of unpaid claims. As a result, the Company overstated its three-year aggregate incurred claims on its 2022 MLR Annual |

| | |
|---|---|
| | Reporting Form by $72,496 in the individual market, $55,458 in the small group market, and $72,463 in the large group market.<br><br>The Company failed to restate its 2020 and 2021 incurred claims on Part 3, Line 1.2, in the prior year (PY2 and PY1) columns on its 2022 MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate incurred claims by $1,198,486 in the individual market, $656,839 in the small group market, and $724,904 in the large group market.<br><br>The Company improperly reported Patient Centered Outcomes Research Institute (PCORI) fees on its 2020, 2021, and 2022 MLR Annual Reporting Forms. As a result, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form by $3,556 in the individual market, $8,474 in the small group market, and $41,864 in the large group market.<br><br>The Company improperly included the amounts for the high-cost risk pools (HCRP) charge on Part 1, Line 3.3b, rather than on Part 2, Line 1.10, on its 2020, 2021, and 2022 MLR Annual Reporting Forms in all markets. In addition, the Company improperly allocated its HCRP charges to the large group and Medicare markets on its 2022 MLR Annual Reporting Form. Because these markets are not subject to the risk adjustment program, the HCRP charges should not have been allocated to these markets. As a result, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form by $26,905 in the individual market, $17,415 in the small group market, and $24,793 in the large group market.<br><br>The Company improperly excluded from the risk adjustment transfer amounts on its 2020, 2021, and 2022 MLR Annual Reporting Forms the amounts for the HCRP charges and the 2017-2021 HHS risk adjustment data validation (RADV) adjustments. As a result, the Company understated its three-year aggregate risk adjustment transfer amounts on its 2022 MLR Annual Reporting Form by $105,117 in the individual market and $97,801 in the small 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 sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definition set forth in §158.150. |
| 9 | **Reporting of expenses for QIA that did not meet the definition of a QIA expense set forth in §158.150 –** The Company improperly included in its QIA on its 2020, 2021, and 2022 MLR Annual Reporting Forms expenses for activities that did not meet the definition of a QIA at §158.150. As a result, the Company overstated its three-year aggregate QIA on its 2022 MLR Annual Reporting Form by a total of $391,144 in the individual |

| | |
|---|---|
| | market, $214,933 in the small group market, and $301,075 in the large group market. |
| 10 | **Failure to properly report the allocation method used to allocate QIA expenses, as required by §158.170 –** The Company failed to report the methods used to allocate its QIA expenses on its 2020, 2021, and 2022 MLR Annual Reporting Forms, as required by §158.170(b). This error did not impact its MLR calculations. |
| 10, 11 | **Failure to properly report taxes and licensing and regulatory fees, as required by §158.161** – Due to multiple other errors not reported above, the Company improperly reported regulatory authority licenses and fees on its 2020, 2021, and 2022 MLR Annual Reporting Forms. As a result, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form by $352,819 in the individual market, $500,943 in the small group market, and $2,500,600 in the large group market. |

These findings decreased the Company's reported MLRs in the individual, small group, and large group markets. The recalculated MLR in the Nevada large group market fell below the MLR standard of 85%, resulting in a rebate liability of $172,386 for the 2022 reporting year.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2022, 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, taxes and licensing and regulatory fees, and the risk adjustment transfer amounts.

**Recalculated MLRs[1] and Rebates for the Individual, Small Group, and Large Group Markets for the 2022 Reporting Year**

**Nevada**

| | Individual Market | | | |
|---|---|---|---|---|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | $53,919,455 | $56,112,244 | 98.9% | $0 |
| As Recalculated | $51,200,350 | $56,495,524 | 93.5% | $0 |
| Difference | ($2,719,106) | $383,280 | (5.4%) | $0 |

| | Small Group Market | | | |
|---|---|---|---|---|
| | Numerator | Denominator | MLR | Rebate |
| As Filed | $28,472,479 | $27,466,295 | 107.2% | $0 |
| As Recalculated | $27,002,437 | $27,993,127 | 100.0% | $0 |
| Difference | ($1,470,042) | $526,832 | (7.2%) | $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 | $37,109,232 | $41,223,092 | 93.0% | $0 |
| As Recalculated | $35,430,562 | $43,790,349 | 83.9% | $172,386 |
| Difference | ($1,678,670) | $2,567,257 | (9.1%) | $172,386 |

# IV. Company Overview

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

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

During the 2020, 2021, and 2022 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, 2022, the Company reported a total of 8,920 covered lives and $55,120,808 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 27,889 covered lives and $279,408,965 in direct earned premium from all health lines of business. The Company's only line of business not subject to the MLR regulations at 45 CFR Part 158 is Medicare Advantage policies.

## B. Management

The corporate officers and board of directors of the Company as of December 31, 2022 were:

**Officers**

| Name | Title |
|---|---|
| Bethany Sexton | Chief Executive Officer, President/Director/Chair |
| Rebekah L. Winter | Treasurer/Director |
| Jamie L. Winter | Secretary |

**Directors**

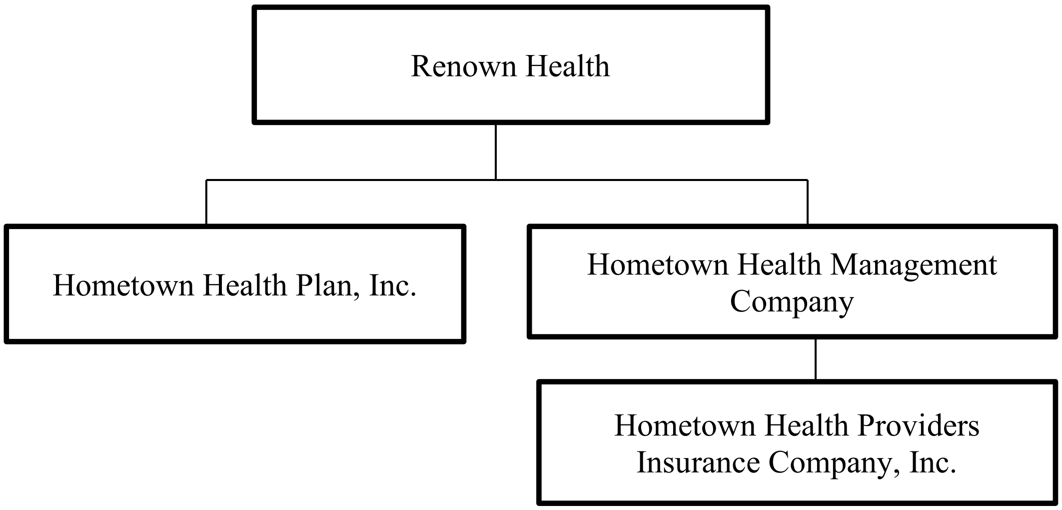
**Name**
Brian Erling

Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2022 MLR Annual Reporting Form were:

| Name | Title |
|---|---|
| Bethany Sexton | CEO Attester |
| Rebekah Winter | CFO Attester |

### C. Ownership

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




### D. Agreements

As of December 31, 2022, the Company had entered into the following inter-company agreement that is pertinent to a review of its MLR Annual Reporting Form:

1. A Management Services Agreement with Hometown Health Providers Insurance Company, Inc. and Hometown Health Management Company.

### E. Reinsurance

During 2020, 2021, and 2022**,** 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 10315 Professional Circle, Reno, Nevada, 89521. 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 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 2020, 2021, and 2022 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2020, 2021, and 2022 MLR Annual Reporting Forms were filed by the due date.

The Company reported that in 2022, 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 2022 reporting year were recalculated and resulted in a rebate liability of $172,386 in the Nevada large group market.

### 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 2020-2022 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 group 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. 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 billing invoices, the master policy, and then-recent group policyholder renewal coverage confirmation forms, containing the total number of employees at the time of renewal (rather than the ATNE on the business days of the calendar year preceding the coverage effective date). Since the Company based its determinations on the total number of employees at the time of either the initial policy application or policy renewal, based on the information obtained from the Company, the examiners could not confirm whether the Company correctly determined the group size, and consequently the market classification, of its group policies.

Due to the Company's use of the incorrect standard for determining group size and market classification, which could have impacted the market classification of some groups, and the lack of adequate documentation necessary to support its determinations, 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 possibly 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 elements tested during the examination were not correctly assigned to the appropriate markets and lines of business in accordance with §158.120.

**Incurred Claims**

*Failure to Deduct Prescription Drug Rebates from Incurred Claims*
The Company failed to deduct from paid claims reported on Part 2, Line 2.1b, on its 2022 MLR Annual Reporting Form, the amount of prescription drug rebates it received from its PBM for 2022, as required by §158.140(b)(1)(i)(A). As a result, the Company overstated its current year incurred claims on Part 3, Line 1.2 by $988,931 in the individual market, $465,368 in the small group market, and $608,764 in the large group market.

*Improper Reporting of Capitation Payments*
The Company failed to include in paid claims on Part 2, Line 2.1b, on its 2022 MLR Annual Reporting Form, the capitation payments made to providers for clinical services to the Company's enrollees. According to §158.140(a), claims paid must include claims paid under capitation contracts. As a result, the Company understated its current year incurred claims on Part 3, Line 1.2, by $37,068 in the individual market, $20,357 in the small group market, and $28,536 in the large group market.

*Improper Reporting of Claims Liability*
The Company improperly included in direct claims liability on Part 2, Line 2.2b, on its 2020, 2021, and 2022 Annual Reporting Forms, adjustments for an explicit margin of safety for potential variations from its estimates of unpaid claims. According to the 2022 MLR Annual Reporting Form Filing Instructions, claims liabilities and reserves for MLR purposes should be the most accurate estimate of actual claims payments, and therefore should not be consistently overestimated, including due to the use of conservative margins for adverse deviation. As a result of this error, the Company overstated its three-year aggregate incurred claims on Part 3, Line 1.2 on its 2022 MLR Annual Reporting Form by $72,496 in the individual market, $55,458 in the small group market, and $72,463 in the large group market.

*Improper Reporting of Prior Year Incurred Claims*
The Company failed to restate its 2020 and 2021 incurred claims on Part 3, Line 1.2, PY2 and PY1 columns, on its 2022 MLR Annual Reporting Form. The Company failed to adjust its 2020 and 2021 incurred claims for subsequent development. According to the 2022 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 3, Line 1.2, PY2 and PY1 columns, must include incurred claims restated as of March 31 of the year following the MLR reporting year. Incurred claims initially reported for 2020 and 2021 should have been restated on Line 1.2, for the prior year columns for all applicable elements of adjusted incurred claims and reflected run-out through March 31, 2023. As a result, the Company overstated its three-year aggregate incurred claims on Part 3, Line 1.2, on its 2022 MLR Annual Reporting Form by

$1,198,486 in the individual market, $656,839 in the small group market, and $724,904 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 percentage 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 on the Company's 2020, 2021, and 2022 MLR Annual Reporting Forms did not meet the regulatory definition of a QIA, as defined at §158.150. In addition, certain cost centers included activities that did not meet the definition of a QIA. As a result, the Company overstated its three-year aggregate QIA on Part 3, Line 1.3, on its 2022 MLR Annual Reporting Form by a total of $391,144 in the individual market, $214,933 in the small group market, and $301,075 in the large group market.

*Failure to Disclose Allocation Methodologies*
The Company failed to report the method it used to allocate its QIA expenses on Part 6 on its 2020, 2021, and 2022 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 reporting errors 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 markets, as required by §158.170.

## Earned Premium

Based upon the procedures performed, nothing came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying the 2020, 2021, and 2022 premium reported on the Company's 2022 MLR Annual Reporting Form were not compliant with §158.130.

## Taxes

*Improper Reporting of PCORI fees*

The Company improperly reported PCORI fees on Part 1, Line 3.1b, on its 2020, 2021, and 2022 MLR Annual Reporting Forms based on the year the fee was paid rather than the year it was incurred. According to the 2022 MLR Annual Reporting Form Filing Instructions, only PCORI fees attributed to policies in effect during the MLR reporting year should be reported on Part 1, Line 3.1b, of the MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on Part 3, Line 2.2, on its 2022 MLR Annual Reporting Form by $3,556 in the individual market, $8,474 in the small group market, and $41,864 in the large group market.

*Improper Reporting of Licensing and Regulatory Fees*

The Company improperly included the amounts for the high-cost risk pools (HCRP) charge on Part 1, Line 3.3b, rather than on Part 2, Line 1.10, on its 2020, 2021, and 2022 MLR Annual Reporting Forms in all markets. In addition, the Company improperly allocated its HCRP charges to the large group and Medicare markets on its 2020, 2021, and 2022 MLR Annual Reporting Forms. According to the 2022 MLR Annual Reporting Form Filing Instructions, the HCRP charge should be included in federal risk adjustment program net receipts or charges reported on Part 2, Line 1.10, and Part 3, Line 1.6, on its MLR Annual Reporting Form. Additionally, according to §158.170(b)(1), expense allocation(s) must be based on generally accepted accounting methods that are expected to yield the most accurate results. Because the large group and Medicare markets are not subject to the risk adjustment program, the HCRP charges should not have been allocated to these markets. As a result, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on Part 3, Line 2.2, on its 2022 MLR Annual Reporting Form by $26,905 in the individual market, $17,415 in the small group market, and $24,793 in the large group market.

Due to multiple errors, the Company improperly reported regulatory authority licenses and fees on Part 1, Line 3.3b, on its 2020, 2021, and 2022 MLR Annual Reporting Forms. For example, the Company improperly included in regulatory authority licenses and fees for various expenses related to rate reviews, actuarial services, fraud assessments, and state examination fees. The Company also improperly reported regulatory authority licenses and fees based on the year the fee was paid rather than the year it was incurred. For example, the Company improperly included ACA Section 9010 fees in the PY2 column on its 2022 MLR Annual Reporting Form. However, these fees, paid in 2020, should have been reported on the Company's 2019 MLR Annual Reporting Form and thus should not have been reported in the three-year aggregation on its 2022 MLR Annual Reporting Form.

According to §158.161(a), regulatory authority licenses and fees include statutory assessments to defray the operating expenses of any state or federal regulatory authority. None of the expenses included met this definition. According to §158.161(b), examination fees assessed by any state or federal department must not be included in the taxes and fees that are deducted from premium and should be reported in other non-claims costs. According to the applicable MLR Annual Reporting Form Filing Instructions, regulatory authority licenses and fees reported on Part 1, Line 3.3b, should only include amounts incurred by the issuer during the MLR reporting year. As a result of the net effect of these errors, the Company overstated its three-year aggregate taxes and licensing and regulatory fees on Part 3, Line 2.2, on its 2022 MLR Annual Reporting Form by $352,819 in the individual market, $500,943 in the small group market, and $2,500,600 in the large group market.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that the taxes and licensing and regulatory fees excluded from 2020, 2021, and 2022 earned premium on the Company's 2022 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.

**Federal Risk Adjustment Program**

*Improper Reporting of Risk Adjustment Transfer Amounts*

The Company improperly excluded from the risk adjustment transfer amounts on Part 2, Line 1.10, on its 2020, 2021, and 2022 MLR Annual Reporting Forms, the amounts for the HCRP charges and HHS RADV adjustment amounts. According to the 2022 MLR Annual Reporting Form Filing Instructions, federal risk adjustment program net receipts or charges should include any amounts related to the HCRP and the applicable HHS-RADV adjustments. As a result, the Company understated its three-year aggregate risk adjustment transfer amounts on its 2022 MLR Annual Reporting Form by $105,117 in the individual market and $97,801 in the small group market.

Based upon the procedures performed, other than the error 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 2022 benefit year, in compliance 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 markets for 2022, the Company used the correct procedures to determine that no rebates were due for any market. 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 2022 MLRs and rebates.

### C. Rebate Disbursement and Notice

According to its 2022 MLR Annual Reporting Form, the Company did not owe rebates in any market in 2022, and therefore was not required by §158.250 to issue, and did not issue, any Rebate Notices.

### 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 Nevada Division of Insurance performed a financial examination of the Company in 2020 covering the period January 1, 2016 through December 31, 2018. The financial examination resulted in various findings, none of which impacted 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 2022 MLR Annual Reporting Form. No post-December 31, 2022 events were brought to CCIIO's attention.

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

CCIIO examined Hometown Health Plan, Inc.'s 2022 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 2022 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2022 MLR Annual Reporting Form contained numerous 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 additional rebates of $172,386 in the Nevada 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 obtains and maintains accurate information from its employer groups at the time of policy application and at renewal in order to determine the correct group size and market classification of its group policies, consistent with the 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*
The Company acknowledges this finding. Hometown Health is implementing new procedures to ensure the accurate determination of group size and market classification for all group policies at the time of application and renewal. Specifically, Hometown will revise its group application and renewal procedures to collect from brokers or groups, an Average Total Number of Employees Worksheet. This will be maintained to support the average total number of employees for the calendar year preceding the coverage effective or renewal date.

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

**Corrective Action #2**
The Company must implement policies and procedures to ensure the accurate reporting of incurred claims in accordance with §158.140, including ensuring the deduction of prescription drug rebates from incurred claims, and that capitation payments are properly included in incurred claims.

*Company Response*
The Company acknowledges this finding. Hometown Health implemented updated policies and procedures to ensure the accurate reporting of incurred claims in accordance with §158.140. These procedures include controls to ensure prescription drug rebates are properly deducted from incurred claims. In addition, processes have been established to confirm that capitation payments are appropriately included in incurred claims.

*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: properly reporting direct claims liability; restating prior year adjusted incurred claims; properly reporting PCORI fees, regulatory authority licenses and fees, and risk adjustment transfer amounts; and ensuring that HCRP charges are allocated to the appropriate markets.

*Company Response*
The Company acknowledges this finding. Hometown Health implemented procedures to ensure the MLR Annual Reporting Form is completed in accordance with §158.110 and applicable filing instructions. These updates include processes to properly restate prior year adjusted incurred claims and to accurately report direct claims liability, including the removal of the previously applied 10% margin. Procedures have also been established to ensure PCORI fees are reported for policies in effect during the applicable reporting year. In addition, controls have been implemented to ensure regulatory fees, PCORI fees, and HCRP charges are properly

reported and that federal risk adjustment program amounts, including HHS-RADV adjustments, are correctly included in the applicable markets.

*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 included 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 salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities are allowable QIA expenses.

*Company Response*
The Company acknowledges this finding. During the audit, Hometown Health began implementing procedures to maintain MLR records in accordance with §158.502. These procedures are designed to ensure that documentation and evidence supporting the MLR Annual Reporting Form is properly created, retained, and organized. Hometown Health continues to refine these processes to improve the completeness and accessibility of records, supporting verification of compliance with reporting requirements and confirming that expenses included in QIA meet the definition of QIA.

In addition, Hometown Health has updated our QIA processes and educated our leadership on the requirements of 158.502. During the audit and effective with the 2024 filing, Hometown Health implemented procedures to ensure only salary amounts supported by quantitative analyses are classified as QIA.

*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 any expenses classified as QIA meet the requirements of §158.150 and that the reported amounts are accurate. The Company must perform additional analyses to adequately differentiate between activities that do and do not qualify as QIA, as defined at §158.150.

*Company Response*
The Company acknowledges this finding. In response, Hometown Health updated our QIA processes and provided education to leadership regarding the requirements of Section 158.150.

During the audit, and effective with the 2024 filing, procedures were implemented to ensure that only qualifying expenses are classified as QIA. As part of this effort, analyses were conducted and revisions were made to the individuals and positions included in QIA allocations.

*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 disclosure of the methods used to allocate QIA expenses to each market, in accordance with §158.170.

*Company Response*
The Company acknowledges this finding. Hometown Health has implemented procedures to ensure the accurate disclosure of the methods used to allocate QIA expenses to each market in accordance with §158.170. These procedures include establishing a standardized methodology for allocating QIA expenses across markets. Documentation and review controls have also been implemented to support and validate the allocation approach used in reporting.

*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 amounts reported as licensing and regulatory fees are properly reported, in accordance with §158.161 and the Annual Reporting Form Filing Instructions, including accurately calculating and reporting regulatory authority licenses and fees.

*Company Response*
The Company acknowledges this finding. Hometown Health has reviewed the requirements for reporting regulatory fees and implemented procedures to ensure that all amounts reported as licensing and regulatory fees comply with §158.161 and the Annual Reporting Form Filing Instructions. Expenses previously included in regulatory fees such as rate reviews, fraud assessments, and state examination fees have been removed. Moving forward, only allowable regulatory fees are included, and all reported amounts are properly calculated and allocated to meet the applicable requirements, ensuring accuracy and compliance in our filings.

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

**Corrective Action #8**
The Company must re-file its 2022 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 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*
Hometown Health will re-file its 2022 MLR Annual Reporting Form to address the errors and findings identified, including updating both current year and prior year amounts as applicable. The revised filing will incorporate all necessary corrections and ensure that any additional rebates due to enrollees are properly calculated. By taking these steps, Hometown Health will promptly remit any underpaid rebates within the required 60-day timeframe following receipt of the Final MLR Examination Report, ensuring compliance with the findings and improving the accuracy of future reporting.

*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.