

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**Neighborhood Health Plan of Rhode Island**  
(Smithfield, Rhode Island)  
for the  
2021 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**

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January 20, 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 Neighborhood Health Plan of Rhode Island (the Company) for the 2021 reporting year, including 2021, 2020, and 2019 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.

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

Christina A. Whitefield, Director  
Data and Analytics Division  
Oversight Group  
Center for Consumer Information & Insurance Oversight  
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 2021 Medical Loss Ratio (MLR) Annual Reporting Form for Neighborhood Health Plan of Rhode Island (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2021 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) properly and accurately reporting incurred claims; 2) ensuring that quality improvement activity (QIA) expenses meet the regulatory definition, are adequately supported with sufficient documentation, and that the allocation method is accurately disclosed; 3) ensuring the accurate calculation and reporting of earned premium, taxes and licensing and regulatory fees, risk adjustment transfer amounts and the credibility adjustment; 4) ensuring the proper calculation and reporting of the credibility adjustment; and 5) implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

The examination findings resulted in decreases to the Company's reported MLRs in the individual and small group markets, increasing the Company's rebate liability for the 2021 reporting year by \$7,198,119 in the individual market in Rhode Island.

## **II. Scope of Examination**

CCIIO examined the Company's 2021 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, 2019 through December 31, 2021, including 2019, 2020, and 2021 experience and claims run-out through March 31, 2022. 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	<p><b>Failure to accurately report incurred claims, as required by §158.140</b> – The Company improperly included in paid claims on its 2019, 2020, and 2021 MLR Annual Reporting Forms 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 2021 MLR Annual Reporting Form by \$10,896,375 in the individual market and \$573,055 in the small group market.</p> <p>The Company improperly included in paid claims on its 2019, 2020, and 2021 MLR Annual Reporting Forms, adjustments that did not meet the definition of an incurred claim. As a result of these errors, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$888,445 in the individual market and \$53,738 in the small group market.</p>
8, 9, 11	<p><b>Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110</b> – The Company improperly included in paid claims on its 2019, 2020, and 2021 MLR Annual Reporting Forms the late payment interest paid to providers. As a result, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$76,674 in the individual market and \$3,967 in the small group market.</p> <p>The Company improperly included in direct claims liability on its 2019, 2020, and 2021 MLR Annual Reporting Forms, prior year adjustments for claims incurred but not reported (IBNR). As a result, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual</p>

Reporting Form by \$2,529,904 in the individual market and \$35,387 in the small group market.

The Company improperly reported prescription drug rebates received in the 3/31 column on Part 2, Line 2.12a, rather than on Part 2, Line 2.1b, as required, on its 2021 MLR Annual Reporting Form. This error did not impact the MLR calculations.

The Company failed to report the individual market reinsurance program payments it received from the Rhode Island Reinsurance Program on its 2020 and 2021 MLR Annual Reporting Forms. As a result, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$12,266,639 in the individual market.

The Company failed to restate its 2019 and 2020 incurred claims on Part 3, Line 1.2, in the prior year (PY2 and PY1) columns on its 2021 MLR Annual Reporting Form. As a result, the Company's three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form were overstated by \$1,848,964 in the individual market and understated by \$131,233 in the small group market.

The Company failed to report adjusted incurred claims for prior years in the PY2 and PY1 columns of Part 3, Line 1.1, on its 2019, 2020, and 2021 MLR Annual Reporting Forms. This error did not impact the MLR calculations as Part 3 Line 1.1 is not used in the MLR calculation.

The Company improperly reported small group market adjusted incurred claims in the current year (CY) column on Part 3, Line 1.2, on its 2021 MLR Annual Reporting Form. As a result, the Company overstated its current year incurred claims on its 2021 MLR Annual Reporting Form by \$534,979 in the small group market.

The Company failed to properly report individual market advance payments of the premium tax credit (APTC) that it received from HHS on its 2019, 2020, and 2021 MLR Annual Reporting Forms. This error did not impact the MLR calculations.

The Company improperly excluded federal and state regulatory authority licenses and fees reported on Part 1, Line 3.3b, from the amount on Part 3, Line 2.2, on its 2021 MLR Annual Reporting Form. As a result, the Company understated its current year taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form by \$63,065 in the individual market and \$3,378 in the small group market.

The Company improperly reported exchange user fees on Part 1, Line 3.2a, rather than on Part 1, Line 3.3b, on its 2021 MLR Annual Reporting Form. This error did not impact the MLR calculations.

The Company improperly excluded from the risk adjustment transfer amounts reported on its 2019, 2020, and 2021 MLR Annual Reporting Forms the amount for the high-cost risk pool (HCRP) charges. The

	Company also incorrectly calculated and reported the total risk adjustment transfer amount. As a result of the net effect of these errors, the Company’s three year-aggregate risk adjustment transfer amounts on its 2021 MLR Annual Reporting Form were overstated by \$8,172,958 in the individual market and understated by \$408,263 in the small group market.
9, 10	<b>Failure to maintain adequate documentation, as required by §158.502</b> – 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.
10	<b>Reporting of expenses as QIA that did not meet the definition of a QIA expense set forth in §158.150</b> - The Company improperly included in QIA on its 2019, 2020, and 2021 MLR Annual Reporting Forms certain expenses for activities that did not meet the definition of a QIA. In addition, some of the expenses were either for job functions that did not qualify as QIA, or for which the Company was unable to provide adequate documentation that proved that the activities met the requirements for being QIA. As a result, the Company overstated its three-year aggregate QIA expenses on its 2021 MLR Annual Reporting Form by \$11,072,911 in the individual market and \$694,666 in the small group market.
10	<b>Failure to properly report the method of allocation of QIA expenses, as required by §158.170</b> - The Company failed to properly report the method used to allocate QIA expenses to each market on its 2019, 2020, and 2021 MLR Annual Reporting Forms, as required by §158.170 (b). This error did not impact the MLR calculations.
12	<b>Failure to calculate the base credibility factor in accordance with §158.232(b)</b> – The Company incorrectly determined the small group market base credibility factor on its 2021 MLR Annual Reporting Form and improperly rounded the based credibility factor and the credibility adjustment. As a result, the Company overstated its credibility adjustment on its 2021 MLR Annual Reporting Form by 1.4 percentage points in the small group market.

These findings decreased the Company’s reported MLRs in the individual and small group markets, resulting in a rebate liability of \$7,198,119 in the individual market for the 2021 reporting year.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2021, 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 licensing and regulatory fees, risk adjustment transfer amounts, and in the small group market, the credibility adjustment.

**Recalculated MLRs<sup>1</sup> and Rebates for the Individual and Small Group Markets for the 2021 Reporting Year**

**Rhode Island**

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$293,420,204	\$354,341,305	82.8%	\$0
As Recalculated	\$262,013,250	\$354,278,240	74.0%	\$7,198,119
Difference	(\$31,406,954)	(\$63,065)	(8.8%)	\$7,198,119

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$20,320,981	\$21,164,507	101.2%	\$0
As Recalculated	\$18,148,159	\$21,161,129	89.6%	\$0
Difference	(\$2,172,822)	(\$3,378)	(11.6%)	\$0

**IV. Company Overview**

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

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

During the 2019, 2020, and 2021 MLR reporting years, the Company operated in the individual and small group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2021, the Company reported a total of 26,616 covered lives and \$131,989,360 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 216,581 covered lives and \$1,526,559,932 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 Medicaid managed care plans.

**B. Management**

The corporate officers and board of directors of the Company as of December 31, 2021 were:

**Officers**

<u>Name</u>	<u>Title</u>
Peter Marino	Chief Executive Officer

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<sup>1</sup> 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.

Michelle Sears	Chief Financial Officer
Haren Carlson	Chief Operating Officer
Marylou Buyse	Chief Medical Officer

**Directors**

<b><u>Name</u></b>	
Peter Bancroft	Patricia Martinez
Richard Besdine	Elena Nicolella
Gary Furtado	Daniel D. Ponte
William Hochstrasser-Walsh	Lisa Ranglin
Jeanne LaChance	Pablo Rodriguez
Raymond J. Lavoie Jr.	Dennis Roy

Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2021 MLR Annual Reporting Form were:

<b><u>Name</u></b>	<b><u>Title</u></b>
Peter Marino	CEO Attester
Michelle Sears	CFO Attester

**C. Ownership**

The Company is not a member of an insurance holding group system.

**D. Agreements**

As of December 31, 2021, the Company had not entered into any inter-company agreements that are pertinent to a review of its MLR Annual Reporting Form.

**E. Reinsurance**

During 2019, 2020, and 2021, the Company did not have any reinsurance agreements in effect that impacted the MLR reporting of its health insurance policies subject to the regulations at 45 CFR Part 158.

**V. Accounts and Records**

The Company’s main administrative and financial reporting office is located at 910 Douglas Pike, Smithfield, Rhode Island, 02917. 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 2019, 2020, and 2021 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2019, 2020, and 2021 MLR Annual Reporting Forms were filed by the due date.

The Company reported that in 2021, it met the MLR standard of 80% for the individual and small 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 2021 reporting year were recalculated and resulted in a rebate liability of \$7,198,119 in the individual 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 2019-2021 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**

##### *Improper Reporting of Prescription Drug Claims*

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2019, 2020, and 2021 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, and 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 2021 MLR Annual Reporting Form by \$10,896,375 in the individual market and \$573,055 in the small group market.

#### *Improper Reporting of Paid Claims*

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2019, 2020, and 2021 MLR Annual Reporting Forms, adjustments that did not meet the definition of incurred claims at §158.140, including ceded premiums paid to its reinsurer and administrative fees for interpretation and translation services. According to §158.140(b)(3)(iii), amounts paid for professional or administrative services that do not represent compensation or reimbursement for covered services provided to an enrollee must not be included in incurred claims. As a result of these errors, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$888,445 in the individual market and \$53,738 in the small group market.

#### *Improper Inclusion of Late Payment Interest in Incurred Claims*

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2019, 2020, and 2021 MLR Annual Reporting Forms the amount it paid to providers for late claims payment interest. According to the 2021 MLR Annual Reporting Form Filing Instructions, late claims payment interest must be excluded from paid claims reported on Part 2, Line 2.1b. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$76,674 in the individual market and \$3,967 in the small group market.

#### *Improper Reporting of Claims Incurred but Not Reported (IBNR)*

The Company improperly included in direct claims liability on Part 2, Line 2.2b, on its 2019, 2020, and 2021 MLR Annual Reporting Forms, prior year adjustments for claims incurred but not reported (IBNR). According to the 2021 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 2, Line 2.2b, is the liability based on claims incurred only during the MLR reporting year and unpaid as of 3/31 of the following year. According to the MLR Annual Reporting Filing Instructions, adjustments for prior years (2019 and 2020) should be reported on Part 3, Line 2.2, in the PY2 and PY1 columns, respectively. As a result, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$2,529,904 in the individual market and \$35,387 in the small group market.

#### *Improper Reporting of Prescription Drug Rebates*

The Company improperly reported prescription drug rebates received from its PBM on Part 2, Line 2.12a, in the 3/31 column on its 2021 MLR Annual Reporting Form. According to the 2021 MLR Annual Reporting Form Filing Instructions, prescription drug rebates received by the issuer must be deducted from paid claims on Part 2, Line 2.1b. The portion of the prescription drug rebates that remained outstanding as of 3/31 of the following year were properly included in the 3/31 column on Part 2, Line 2.12a. The error did not impact the MLR calculation as the correct total amount of prescription drug rebates paid and outstanding were properly deducted from incurred claims.

#### *Improper Reporting of State Reinsurance Program Payments*

The Company failed to report the individual market reinsurance program payments it received from the Rhode Island Reinsurance Program on Part 2, Line 2.16, on its 2020 and 2021 MLR Annual Reporting Forms. According to the 2021 MLR Annual Reporting Form Filing Instructions, the expected receipts from a state reinsurance program must be reported on Part 2,

Line 2.16. As a result of this error, the Company overstated its three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form by \$12,266,639 in the individual market.

#### *Improper Reporting of Prior Year Incurred Claims*

The Company failed to restate its 2019 and 2020 incurred claims on Part 3, Line 1.2, in the PY2 and PY1 columns on its 2021 MLR Annual Reporting Form. The Company failed to adjust its 2019 and 2020 incurred claims for subsequent development. According to the 2021 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 3, Line 1.2, in the 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 2019 and 2020 should have been restated on Line 1.2 in the prior year columns for all applicable elements of adjusted incurred claims and reflected run-out through March 31, 2022. As a result, the Company's three-year aggregate incurred claims on its 2021 MLR Annual Reporting Form were overstated by \$1,848,964 in the individual market and understated by \$131,233 in the small group market.

In addition, the Company failed to report incurred claims for prior years on Part 3, Line 1.1, in the PY2 and PY1 columns on its 2021 MLR Annual Reporting Form. According to the 2021 MLR Annual Reporting Form Filing Instructions, the amounts reported on Part 3, Line 1.1, PY2 and PY1 columns, must equal the amounts originally reported on the respective MLR Annual Reporting Form. 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 Adjusted Incurred Claims*

The Company improperly reported small group market adjusted incurred claims on Part 3, Line 1.2, in the CY column on its 2021 MLR Annual Reporting Form. The Company carried forward \$7,373,232 from the 12/31 column on Part 1, Line 2.1, rather than \$6,840,253 from the 3/31 column. According to the 2021 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 3, Line 1.2, in the CY column must include the total incurred claims from Part 2, Line 2.1, adjusted for the allowable claims recovered through fraud reduction efforts and any applicable deferred amounts. As a result, the Company overstated its small group market current year incurred claims on Part 3, Line 1.2, on its 2021 MLR Annual Reporting Form by \$534,979.

Based upon the procedures performed, which include validating a sample of incurred claims (as defined by §158.140), other than the reporting errors noted, 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 MLRs 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.

#### *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 expenses associated with provider network management, information technology infrastructure, and pharmacy administration did not qualify as QIA as defined at §158.150. In addition, some of the expenses for cost centers that the Company included in QIA were either for job functions 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 being QIA. As a result of these errors, the Company overstated its three-year aggregate QIA expenses on its 2021 MLR Annual Reporting Form by \$11,072,911 in the individual market and \$694,666 in the small group market.

#### *Failure to Accurately Disclose Allocation Methodologies*

The Company failed to accurately report the method used to allocate its QIA expenses to each market on its 2021 MLR Annual Reporting Form, as required by §158.170(b). This error did not impact the MLR calculations.

Based upon the procedures performed, other than the errors 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 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 2019, 2020, and 2021 MLR Annual Reporting Forms, as required by the 2021 MLR Annual Reporting Form Filing Instructions. This error did not impact the MLR calculations 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 calculations.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that earned premium was not properly

reported on a direct basis and that the data elements underlying the 2019, 2020, and 2021 premium reported on the Company's 2021 MLR Annual Reporting Form were not compliant with §158.130.

## **Taxes**

### *Improper Reporting of Total Taxes and Licensing and Regulatory Fees*

The Company improperly excluded other federal and state regulatory authority licenses and fees reported on Part 1, Line 3.3b, from the amount on Part 3, Line 2.2, on its 2021 MLR Annual Reporting Form. According to the MLR Annual Reporting Form Instructions, the amount on Part 1, Line 3.3b, should be included in the amount reported on Part 3, Line 2.2. As a result of this error, the Company understated its current year taxes and licensing and regulatory fees on its 2021 MLR Annual Reporting Form by \$63,065 in the individual market and \$3,378 in the small group market.

### *Improper Reporting of Exchange User Fees*

The Company improperly reported risk adjustment user fees on Part 1, Line 3.2a, rather than on Part 1, Line 3.3b, on its 2021 MLR Annual Reporting Form. According to the MLR Annual Reporting Form Filing Instructions, exchange 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 errors noted above, nothing additional came to our attention that would indicate that the taxes and licensing and regulatory fees excluded from 2019, 2020, and 2021 earned premium on the Company's 2021 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 reported on Part 2, Line 1.10, on its 2019, 2020, and 2021 MLR Annual Reporting Forms, the amounts for the HCRP charges. According to the 2021 MLR Annual Reporting Form Filing Instructions, federal risk adjustment program net receipts or charges should include any amounts related to the HCRP. In addition, the Company incorrectly reported the accrued risk adjustment transfer amount for 2021 in the CY column of Part 3, Line 1.6, on its 2021 MLR Annual Reporting Form, rather than the expected net payments received from HHS. As a result, the Company's three year-aggregate risk adjustment transfer amounts on its 2021 MLR Annual Reporting Form were overstated by \$8,172,958 in the individual market and understated by \$408,263 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 applicable benefit year, as required by §158.140(b)(4)(ii).

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

### *Incorrect Calculation of the Credibility Adjustment*

The Company incorrectly calculated the base credibility factor reported on Part 3, Line 3.2, on its 2021 MLR Annual Reporting Form in the small group market. The Company reported 5.2%, which is the base credibility factor for life-years of 2,500, according to §158.232(b)(2), when its reported number of aggregated life-years in the small group market was actually 4,823. In addition, the base credibility factor and the credibility adjustment were rounded to three decimal places. According to the 2021 MLR Annual Reporting Form Filing Instructions, Line 3.2 and Line 3.5 should not be rounded. As a result, the Company overstated its credibility adjustment on its 2021 MLR Annual Reporting Form by 1.4 percentage points in the small group market.

Based on the Company's reported final MLRs, which exceeded the standard of 80% in the individual and small group markets for 2021, the Company used the correct procedures to determine that no rebates were due for that year in those markets. As detailed in this report, the examination identified errors in the data underlying the Company's MLRs and rebate calculations, resulting in changes to the Company's MLRs and rebate amounts.

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

According to its 2021 MLR Annual Reporting Form, the Company did not owe rebates in any market in 2021 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 Rhode Island Department of Business Regulation performed a financial examination of the Company in 2019 covering the period January 1, 2014 through December 31, 2017. The financial examination did not result in any findings that impact the Company's federal MLR calculation or reporting.

## **VII. Subsequent Events**

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2021 MLR Annual Reporting Form. No post-December 31, 2021 events were brought to CCIIO's attention.

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

CCIIO examined Neighborhood Health Plan of Rhode Island's 2021 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 2021 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2021 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 rebates of \$7,198,119 in the Rhode Island individual 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 the accurate reporting of incurred claims, in accordance with §158.140, including ensuring that the 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 and ensuring the proper reporting of incurred claims.

*Company Response*

NHP has updated our claims backup data files and desktop procedures to ensure that the incurred claims amount reported accurately captures Pharmacy costs in accordance with §158.140.

*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 MLR Annual Reporting Form Filing Instructions, including ensuring the: proper reporting of late claim payment interest paid to providers, IBNR, prescription drug rebates received, and state reinsurance program payments; proper restatement of prior year incurred claims; proper reporting of adjusted incurred claims; and proper calculation and reporting of earned premium, taxes and licensing and regulatory fees, and risk adjustment transfer amounts.

*Company Response*

NHP has updated our backup data files and MLR calculator to ensure the proper reporting for late claim payment interest, IBNR, prescription drug rebates received, Reinsurance, proper restatement of prior year incurred claims; proper reporting of adjusted incurred claims; and proper calculation and reporting of earned premium, taxes and licensing and regulatory fees, and risk adjustment transfer amounts.

*CCIIO Reply*

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

**Corrective Action #3**

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 adequate 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*

NHP has strengthened its documentation practices to better support compliance with reporting requirements. Subject matter experts have been designated to oversee the tracking and maintenance of all relevant records. In addition, NHP has refined its departmental classifications to improve the identification of employees and salary expenses that may appropriately be attributed to QIA.

*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 that any expenses classified as QIA meet the requirements at §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, 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*

NHP has implemented standardized procedures and documentation to clearly define activities that qualify as QIA. This standardization enhances consistency in identifying QIA activities. Following the examination of the MLR Annual Reporting Form, NHP conducted additional analyses to identify specific suppliers, cost centers, and other transactions that appropriately qualify 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 the accurate and proper reporting of the methods used to allocate expenses, including QIA expenses, to each market, in accordance with §158.170.

Company Response

NHP has updated our backup data files and desktop procedures to ensure proper reporting and allocation of expenses by market.

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 that it calculates the base credibility factor in accordance with §158.232(b) and the MLR Annual Reporting Form Filing Instructions, including ensuring that the base credibility factor and the credibility adjustment are not rounded.

Company Response

NHP has updated our desktop procedure to note that both the base credibility factor and the credibility adjustment are not rounded. As well as utilizing the MLR calculator file for the proper calculation of the base credibility factor.

CCIIO Reply

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

**Corrective Action #7**

The Company must re-file its 2021 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

NHP has refiled the 2021 MLR and paid all rebates owed to enrollees.

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.