

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**Paramount Insurance Company**  
(Maumee, Ohio)  
for the  
2015 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**

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April 2, 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 Paramount Insurance Company (the Company) for the 2015 reporting year, including 2015, 2014 and 2013 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.

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

Christina A. Whitefield, Director  
Data and Analytics Division  
Oversight Group  
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 2015 Medical Loss Ratio (MLR) Annual Reporting Form for Paramount Insurance Company (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2015 MLR Annual Reporting Form contains some elements that are not compliant with the requirements of 45 CFR Part 158, and that impact consumer rebates.

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including: ensuring proper reporting of assumption reinsurance; obtaining and maintaining adequate information to accurately determine the market classification of group policies; correctly determining the market classification of group policies; ensuring that incurred claims, earned premiums, and taxes are accurately calculated and reported; ensuring that quality improvement activity (QIA) expenses meet the regulatory definition of a QIA and are adequately supported with sufficient documentation; properly reporting the Company's federal income tax allocation methodology; and adopting and implementing policies and procedures to ensure the accuracy of the MLR Annual Reporting Form and compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

The examination findings resulted in net decreases to the Company's reported MLRs in the individual, small group, and large group markets for the two states in which the Company had health insurance coverage subject to 45 CFR Part 158, increasing the Company's rebate liability for the 2015 reporting year by \$58,549 in the Michigan small group market.

## **II. Scope of Examination**

CCIIO examined the Company's 2015 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, 2013 through December 31, 2015, including 2013, 2014, and 2015 experience and claims run-out through March 31, 2016. 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

<b>Page</b>	<b>Key Findings</b>
6-7, 10	<p><b>Failure to accurately report earned premium, as required by §158.130</b> – The Company incorrectly reported on its 2015 MLR Annual Reporting Form the experience from a 2013 100% assumption reinsurance agreement with novation based on the August 1 effective date of the contract rather than the entire MLR reporting year for the year for which the policies were assumed, as required by §158.130. As a result, the Company understated its three-year aggregate, incurred claims by \$58,005,860, QIA expenses by \$1,109,666, earned premium by \$70,427,916, and life years by 16,662, and overstated its three-year aggregate taxes, licensing, and regulatory fees by \$289,893.</p> <p>The Company improperly deducted 2014 MLR rebates paid to enrollees in Michigan from its earned premium reported on its 2015 MLR Annual Reporting Form. As a result, the Company understated its earned premium by \$121,463 in the Michigan small group market, and \$239,024 in the Michigan large group market.</p>
8	<p><b>Failure to employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders</b> – 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.</p>
8	<p><b>Failure to assign the correct market classification, in accordance with the definitions in §158.103</b> – The Company incorrectly classified one policy as a large group market policy on its 2015 MLR Annual Reporting Form that should have been reported in the small group market. As a result, a total of \$226,336 in incurred claims, and \$310,812 in earned premiums, were reallocated from the Ohio large group market to the Ohio small group market.</p>
9	<p><b>Failure to accurately report incurred claims, as required by §158.140</b> – The Company improperly reduced its paid claims reported on its 2015 MLR Annual Reporting Form for recoveries received from reinsurers under an</p>

Page	Key Findings
	<p>excess of loss reinsurance contract. As a result of this error, the Company understated its current year incurred claims by \$128,925 in the Ohio small group market, and \$117,051 in the Ohio large group market.</p> <p>The Company improperly reported accrued MLR rebates as experience rating refunds on its 2015 MLR Annual Reporting Form. As a result of this error, the Company overstated its current year incurred claims by \$112,553 in the Michigan small group market.</p>
9	<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 failed to properly report net assumed less ceded claims incurred in the 12/31 column on Part 1, Line 2.5, on its 2015 MLR Annual Reporting Form. This error did not impact the MLR calculation as the 12/31 column is not used in the calculation.</p>
10	<p><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.</p>
10	<p><b>Reporting of QIA expenses that did not meet the definition of a QIA set forth in § 158.150</b> – The Company improperly included in its QIA on its 2013, 2014, and 2015 MLR Annual Reporting Forms expenses for certain activities that did not meet the definition of QIA at §158.150. As a result of this error, the Company overstated its three-year aggregate QIA expenses on its 2015 MLR Annual Reporting Form by \$2,590 in the individual market, \$24,189 in the small group market, and \$46,350 in the large group market.</p>
11	<p><b>Failure to accurately report state taxes and assessments, as required by §158.162</b> – The Company improperly included sales tax in its state income, excise, business, and other taxes reported on its 2013, 2014, and 2015 MLR Annual Reporting Forms. As a result, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on its 2015 MLR Annual Reporting Form by \$24,267 in the individual market, \$169,752 in the small group market, and \$312,232 in the large group market.</p>
11	<p><b>Failure to accurately report the method of allocation of expenses, as required by §158.170</b> - The Company failed to accurately report the method used to allocate its federal income taxes to each state and market on its 2015 MLR Annual Reporting Form. This error did not impact the MLR calculations.</p>

These findings resulted in decreases to the Company's reported MLRs in all states and markets in which it had health insurance coverage subject to 45 CFR Part 158. In the Michigan small group market, the recalculated MLR continued to be below the MLR standard of 80%, resulting in an additional rebate liability of \$58,549 for the 2015 reporting year.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 2015, are shown in the following tables. The differences between the amounts in the “As Filed” and “As Recalculated” rows reflect the net result of the adjustments made to: correctly report assumed reinsurance; correct the market classification of one group policy; and properly restate incurred claims, earned premium, QIA, and taxes.

**Recalculated MLRs<sup>1</sup> and Rebates for the Individual, Small Group, and Large Group Markets for the 2015 Reporting Year**

**Michigan**

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$8,134,151	\$11,691,820	74.8%	\$143,804
As Recalculated	\$8,021,172	\$11,825,998	73.0%	\$202,353
Difference	(\$112,979)	\$134,178	(1.8%)	\$58,549

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$7,622,209	\$9,127,166	89.1%	\$0
As Recalculated	\$7,621,393	\$9,379,694	86.9%	\$0
Difference	(\$816)	\$252,528	(2.2%)	\$0

**Ohio**

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$14,830,306	\$18,053,485	86.4%	\$0
As Recalculated	\$14,885,471	\$18,239,248	85.9%	\$0
Difference	\$55,165	\$185,763	(0.5)%	\$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$94,558,094	\$105,848,811	90.9%	\$0
As Recalculated	\$112,446,483	\$128,761,979	88.8%	\$0
Difference	\$17,888,389	\$22,913,168	(2.1%)	\$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$186,582,177	\$210,581,368	89.8%	\$0
As Recalculated	\$227,928,237	\$258,680,278	88.8%	\$0
Difference	\$41,346,060	\$48,098,910	(1.0%)	\$0

<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.

## **IV. Company Overview**

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

The Company is a for-profit insurance company domiciled in Ohio. The Company sells individual and group health insurance policies in Michigan and Ohio.

During the 2013, 2014, and 2015 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, 2015, the Company reported a total of 31,734 covered lives and \$146,832,575 in direct earned premium for policies subject to the MLR reporting and rebate requirements, and a total of 76,702 covered lives and \$151,478,895 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 Medicare supplement policies, Medicare Part D policies, and stop-loss insurance.

### **B. Management**

The corporate officers and board of directors of the Company as of December 31, 2015 were:

#### **Officers**

<b><u>Name</u></b>	<b><u>Title</u></b>
Robert W. LaClair	Chairman
John C. Randolph	President
Alan M. Sattler	Treasurer
Jeffrey C. Kuhn	Secretary
Jeffrey W. Martin	Vice President, Operations
Stacey L. Bock	Vice President, Finance
John D. Meier	Vice President, Health Services

#### **Directors**

<b><u>Name</u></b>
Julie A. Bartnik
Dee A. Bialecki-Haase
Jeffrey W. Boersma
Timothy Bublick
Cathy L. Cantor
Vincent M. Davis
Mark L. Ferris
Cynthia A. Geronimo
Amy L. Hall
Lee W. Hammerling
Lynn E. Olman
John C. Randolph



Garry W. Roberts  
Richard A. Wasserman

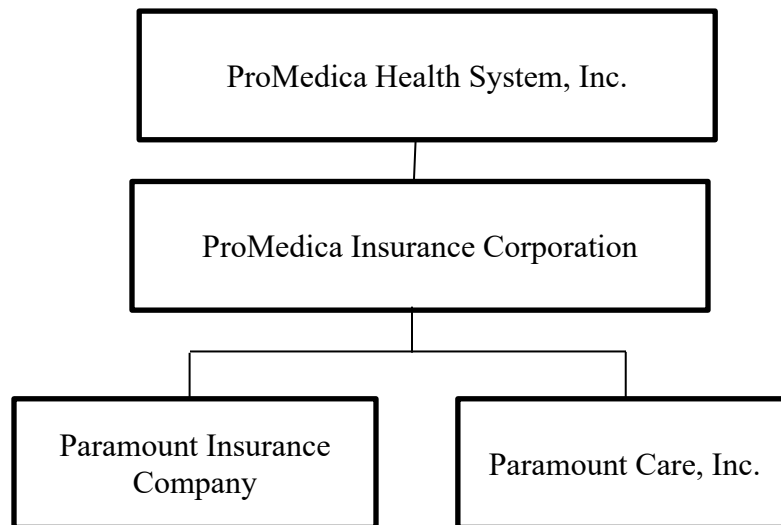
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2015 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
John C. Randolph	CEO Attester
Stacey L. Bock	CFO Attester

### C. Ownership

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

#### **Paramount Insurance Company Organizational Chart as of December 31, 2015<sup>2</sup>**



### D. Agreements

As of December 31, 2015, the Company had entered into the following intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. Cost Allocation Agreement with ProMedica Health System, Inc., ProMedica Insurance Corporation, and various affiliates.
2. A Tax Sharing Agreement with ProMedica Insurance Corporation and various affiliates.

### E. Reinsurance

#### *Improper Reporting of a 100% Assumption Reinsurance Agreement*

Effective August 1, 2013, the Company assumed 100% of the Ohio individual and group market comprehensive medical insurance policies of Paramount Care, Inc., along with all related assets

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<sup>2</sup> 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.

and liabilities, via an assumption reinsurance agreement with novation. The Company correctly reported the August 1- December 31, 2013 experience for the assumed business in the PY2 column on Part 3 on its 2015 MLR Annual Reporting Form for the individual, small group, and large group markets in Ohio. However, it failed to report the January 1- July 31, 2013 experience for the policies assumed under the reinsurance agreement, as required. According to §158.130(a)(2), all experience for policies issued by one issuer and later assumed by another issuer must be reported by the assuming issuer for the entire MLR reporting year during which the policies were assumed and must not be reported by the ceding issuer.

As a result of its failure to report the entire 2013 experience for the assumed policies, the Company understated/(overstated) its three-year aggregate experience on its 2015 MLR Annual Reporting Form as follows:

	<b>Individual Market</b>	<b>Small Group Market</b>	<b>Large Group Market</b>	<b>Total</b>
Incurred Claims	\$55,957	\$17,189,940	\$40,759,963	\$58,005,860
QIA Expenses	\$1,798	\$366,951	\$740,917	\$1,109,666
Earned Premium	\$161,026	\$22,349,403	\$47,917,487	\$70,427,916
Taxes	(\$470)	(\$95,916)	(\$193,507)	(\$289,893)
Number of Life Years	27	5,513	11,122	16,662

While the examination included a review of the impact of this reporting error on the 2013 amounts as reported on the 2015 MLR Annual Reporting Form, a substantive analysis and testing of the impact of the error as reported on the 2013 and 2014 MLR Annual Reporting Forms were not within the scope of this examination. However, based on the examination of the 2015 MLR Annual Reporting Form, the error in reporting the experience from the 100% assumption reinsurance agreement may have had an impact on the proper reporting of the MLR and rebate liability on the Company's 2013 and 2014 MLR Annual Reporting Forms.

During 2013, 2014, and 2015, other than the 100% assumption reinsurance agreement noted above, the Company did not have any additional reinsurance agreements in effect that impacted the MLR reporting of its health insurance coverage that was subject to the regulations at 45 CFR Part 158.

## **V. Accounts and Records**

The Company's main administrative and financial reporting office is located at 1901 Indian Wood Circle, Maumee, Ohio, 43537. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted herein, the Company was not in compliance with §158.502 with regard to maintaining adequate documentation and other evidence necessary to enable CCIIO to verify that the MLRs and rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not provide sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definitions set forth in §158.150.

## **VI. Examination Results**

Except as noted in this report, based on the procedures performed, nothing came to our attention that would indicate that the Company's 2013, 2014, and 2015 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2013, 2014, and 2015 MLR Annual Reporting Forms were filed by the due date.

The Company reported that it met or exceeded the applicable MLR standard in the Ohio individual and small group markets, and the Michigan and Ohio large group market, for 2015, and thus was not required to pay rebates to its enrollees for these states and markets. The Company reported that it did not meet the 80% MLR standard in the Michigan small group market in 2015, and paid rebates totaling \$143,804. Based on the reporting errors found during the examination, the Company's MLRs for the 2015 reporting year were recalculated and resulted in an additional rebate liability of \$58,549 in the Michigan small 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 2013-2015 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, and therefore may have incorrectly determined the market classification of some group policies for the period covered by this examination.

The Company provided copies of annual group census surveys that included the total number of employees at the time of application or 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 number of employees at the time of either the initial policy application or policy renewal, based on the available documentation, 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, we cannot conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

##### *Incorrect Reporting of Market Classification*

In addition to not using the correct method to determine the average number of employees of its group policyholders, the Company assigned at least one policy to the incorrect market based on the group size information that it had. Based on testing the market classification of the Company's policies, one Ohio policy in the sample of 25 large group market policies was incorrectly classified. Based on the group size, the experience for the policy should have been

reported in the small group market, instead of in the large group market, for the 2015 MLR reporting year. As a result, \$226,336 of current year incurred claims and \$310,812 of earned premium were reallocated from the Ohio large group market to the small group market.

### **Aggregation**

Based upon the procedures performed, other than the improper reporting of assumed reinsurance, the possibly incorrect group size and market classification determinations, and the failure to accurately report the market classification of one policy, as noted above, nothing additional came to our attention that would indicate that the samples of policies, claims, and other aggregation-related reporting elements tested during the examination were not correctly assigned to the appropriate states, markets, and lines of business, in accordance with §158.120.

### **Incurred Claims**

#### *Improper Reporting of Incurred Claims*

The Company improperly reduced its paid claims reported on Part 2, Line 2.1b, on its 2015 MLR Annual Reporting Form for the amount of recoveries received from reinsurers under an excess of loss reinsurance agreement. According to §158.140(a), and the MLR Annual Reporting Form Filing instructions, paid claims should be reported on a direct basis, unless the agreement is either a 100% assumption reinsurance agreement (with a novation), or a 100% indemnity reinsurance and administrative agreement entered into and effective prior to March 23, 2010. As a result of this error, the Company understated its three-year aggregate incurred claims on its 2015 MLR Annual Reporting Form by \$128,925 in the Ohio small group market and \$117,051 in the Ohio large group market.

#### *Improper Reporting of Experience Rating Refunds*

The Company improperly included on Part 2, Line 2.9b, of its 2015 MLR Annual Reporting Form an accrual for MLR rebates due and unpaid. According to §158.140(a)(5), incurred claims must exclude MLR rebates. As a result of this error, the Company overstated its current year incurred claims on Part 3, Line 1.2, by \$112,553 in the Michigan small group market.

#### *Failure to Report Net Assumed Less Ceded Claims Incurred*

The Company failed to properly report net assumed less ceded claims incurred in the 12/31 column on Part 1, Line 2.5, on its 2015 MLR Annual Reporting Form, as required by the 2015 MLR Annual Reporting Form Filing Instructions. This error did not impact the MLR calculation, as the 12/31 column is not used in the calculation.

Based upon the procedures performed, including validating a sample of incurred claims (as defined by §158.140), other than the improper reporting of assumed and ceded reinsurance, the failure to accurately report the market classification of one policy, and the improper reporting of experience rating refunds noted above, nothing additional came to our attention that would indicate that the Company did not properly report the reconciled amount of cost sharing reductions (CSRs) received from HHS, in accordance with §158.140(b)(1)(iii), or that the Company did not accurately report incurred claims.

### **Claims Recovered Through Fraud Reduction Efforts**

Based upon the procedures performed, no errors were noted in how the Company reported 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 owing 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 inappropriate 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*

The Company improperly included on its 2013, 2014, and 2015 MLR Annual Reporting Forms expenses for certain activities that did not meet the definition of QIA at §158.150. These included retrospective and concurrent utilization review expenses. According to §158.150(c)(7), all retrospective and concurrent utilization review expenses must not be included in QIA. As a result of this error, the Company overstated its three-year aggregate QIA expenses on its 2015 MLR Annual Reporting Form by \$2,590 in the individual market, \$24,189 in the small group market, and \$46,350 in the large group market.

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

## **Earned Premium**

### *Improper Reporting of Earned Premium*

The Company improperly deducted the 2014 MLR rebates that it disbursed to its small group market enrollees in Michigan from its earned premium on its 2015 MLR Annual Report Form. According to §158.130(b)(3), premium should not be adjusted to account for any MLR rebates that were paid. Further, although rebates were only disbursed to the Company's small group market enrollees, the Company inappropriately allocated and deducted a portion of these rebates from its large group market earned premium on its 2015 MLR Annual Reporting Form. As a result, the Company understated its current year earned premium on Part 3, Line 2.1, on its 2015 MLR Annual Reporting Form by \$121,463 in the small group market, and \$239,024 in the large group market, in Michigan.

Based upon the procedures performed, other than the improper reporting of assumed reinsurance, the failure to accurately report the market classification of one policy, and the earned premium reporting error, as 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 2013, 2014, and 2015 premium reported on the Company's 2015 MLR Annual Reporting Form were not compliant with §158.130.

## **Taxes**

### *Improper Inclusion of State Sales and Use Taxes*

The Company improperly reported state sales and use taxes with its state income and business taxes reported on Part 1, Line 3.2a, on its 2013, 2014, and 2015 MLR Annual Reporting Forms. According to §158.162(b)(2)(i), state sales taxes should not be deducted from premium in the MLR and rebate calculations. As a result of this error, the Company overstated its three-year aggregate taxes, licensing, and regulatory fees on Part 3, Line 2.2, on its 2015 MLR Annual Reporting Form by \$24,267 in the individual market, \$169,752 in the small group market, and \$312,232 in the large group market.

### *Failure to Accurately Disclose Allocation Methodologies*

The Company failed to accurately report the method used to allocate its federal income to each state and market on its 2015 MLR Annual Reporting Form, as required by §158.170(b). The Company reported on its 2015 Grand Total MLR Annual Reporting Form, Part 6, that taxes, licensing, and regulatory fees were allocated to each market based on member months. Based on a review of additional documentation provided by the Company, federal income taxes were actually allocated based on income/loss attributable to each state and market segment, which we deemed to be in compliance with §158.170. This error did not impact the MLR calculation.

Based upon the procedures performed, other than the improper reporting of assumed reinsurance, the improper inclusion of sales tax, and the disclosure error, as noted above, nothing additional came to our attention that would indicate that the taxes, licensing, and regulatory fees excluded from 2013, 2014, and 2015 earned premium on the Company's 2015 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 states and markets, as required by §158.170, and in accordance with its federal tax sharing agreement.

## **Federal Transitional Reinsurance, Risk Adjustment, and Risk Corridors Programs**

Based upon the procedures performed, nothing came to our attention that would indicate that the Company did not properly report the expected transfer amounts under the federal transitional reinsurance, risk adjustment, and risk corridors programs, for the 2015 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, and in accordance with 45 CFR Part 158 and the 2015 MLR Annual Reporting Form Filing Instructions.

The Company reported that it did not meet the 2015 MLR standard of 80% in the Michigan small group market. The Company used the correct procedures to calculate the Michigan small

group rebates of \$143,804. 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 2015 MLRs and rebate amount.

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

According to its 2015 MLR Annual Reporting Form, the Company reported that it owed rebates in the Michigan small group market. Based upon the procedures performed, the Company timely issued rebates in accordance with §§158.240-243, and Rebate Notices in accordance with §158.250.

### **D. Compliance with Previous Recommendations**

The Company indicated that neither CCIIO nor any state regulatory entity had previously performed an examination of the Company's MLR processes and reporting. The Ohio Department of Insurance performed a financial examination of the Company in 2016 covering the period January 1, 2011 through December 31, 2015. 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 2015 MLR Annual Reporting Form. No post-December 31, 2015 significant events were brought to CCIIO's attention.

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

CCIIO examined Paramount Insurance Company's 2015 MLR Annual Reporting Form to assess compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2015 MLR Annual Reporting Form contained some elements that were not compliant with the requirements of 45 CFR Part 158. Based on the adjustments made as a result of the examination findings, the Company owes additional rebates of \$58,549 in the Michigan small group market.

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

### **Corrective Action #1**

The Company must adopt and implement procedures to ensure it correctly reports earned premium in accordance with §158.130 and the MLR Annual Reporting Form Filing Instructions, including ensuring that it properly and accurately reports all assumed experience for policies for the entire MLR reporting year during which the policies were assumed, and that earned premium is not adjusted to reflect any MLR rebates that it paid.

#### Company Response

Paramount Insurance Company agrees with this corrective action. The Company has implemented procedures beginning with the 2016 benefit year to ensure premiums are not adjusted for MLR rebates paid as required by §158.130. This will ensure accurate reporting of premiums earned.

#### 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 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 accurate documentation of the average total number of employees for the calendar year preceding the coverage effective (or renewal) date. The Company must adopt and implement procedures to ensure that it accurately determines and reports the correct group size and market classification of its group policies, consistent with section 2791(e) of the PHS Act and §158.103.

#### Company Response

Paramount Insurance company has a procedure in place to request annual updates for monthly employee count information from employer groups to calculate group size and determine market classification. This information is reviewed at renewal to ensure application of section 2791(e) of the PHS Act and §158.103.

#### 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 properly and accurately reports incurred claims in accordance with §158.140, including reporting incurred claims on a direct basis and ensuring that any experience rating refunds do not include MLR rebates.

#### Company Response

Paramount Insurance Company agrees with this corrective action. Consistent with corrective action #1, the company has implemented procedures beginning with the 2016 benefit year to ensure claims are not adjusted for MLR rebates paid in accordance with §158.140.

#### 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 it completes the MLR Annual Reporting Form in accordance with §158.110, and the applicable MLR Annual Reporting Form



Filing Instructions, including but not limited to ensuring the proper reporting of net assumed less ceded claims.

*Company Response*

Paramount Insurance Company acknowledges this finding and will ensure MLR Annual Reporting Forms are completed in accordance with 158.110, and the applicable MLR Annual Reporting Form Filing Instructions, including but not limited to ensuring the proper reporting of net assumed less ceded claims.

*CCIIO Reply*

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

**Corrective Action #5**

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

*Company Response*

Paramount Insurance Company acknowledges this finding and has actively worked to implement enhanced policies and procedures for maintaining all documentation and evidence necessary to enable CCIIO to verify compliance with §158.502. This includes updating job descriptions and duties to meet the classifications of quality improvement activities.

*CCIIO Reply*

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

**Corrective Action #6**

The Company must implement procedures to ensure that any expenses classified as QIA meet the requirements at §158.150 and that sufficient documentation exists to support such determinations. The Company must perform additional analyses to adequately differentiate between activities that do and do not qualify as QIA, and perform additional quantitative analyses to ensure that the appropriate percentage of each activity or transaction that qualifies as a QIA pursuant to §158.150 is reported on its MLR Annual Reporting Form.

*Company Response*

Paramount Insurance Company acknowledges this finding and has actively worked to implement enhanced policies and procedures for maintaining all documentation and evidence necessary to enable CCIIO to verify compliance with §158.502. This is consistent with corrective action #5.

*CCIIO Reply*

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

### **Corrective Action #7**

The Company must adopt and implement procedures to ensure that it properly and accurately reports its taxes, licensing, and regulatory fees, in accordance with §158.162, including ensuring the proper exclusion of state sales and use taxes.

#### **Company Response**

Paramount Insurance Company agrees with this finding. The company reviewed requirements for state sales and use tax and removed the expense from state income, excise, business, and other taxes reported on future filings. The procedure followed is now in accordance with §158.162.

#### **CCIIO Reply**

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

### **Corrective Action #8**

The Company must adopt and implement procedures to ensure the accurate disclosure of the methods used to allocate expenses to each state and market, in accordance with §158.170(b) and the MLR Annual Reporting Form Filing Instructions.

#### **Company Response**

Paramount Insurance Company acknowledges this finding and has updated the allocation model to clearly reflect and disclose the method of allocating expenses to each state as well as each market within a state. This is now in accordance with §158.170(b) and the MLR Annual Reporting Form Filing instructions.

#### **CCIIO Reply**

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

### **Corrective Action #9**

The Company must re-file its 2015 MLR Annual Reporting Form to rectify the errors and reflect the findings stated herein, adjusting both the current year (CY) and prior year (PY) columns as applicable, including, calculating any additional rebate amounts 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**

Paramount Insurance Company acknowledges this finding. The amended 2015 MLR Annual Reporting Form was submitted to CCIIO. We are currently researching all companies due a rebate to ensure they are still viable. We plan to pay rebates with accrued interest for Michigan small group on or prior to May 31, 2025.

#### **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.**

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