

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**PHP Insurance Company**  
(Lansing, Michigan)  
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



## **OVERSIGHT GROUP**

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October 30, 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 PHP Insurance Company (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.

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 2022 Medical Loss Ratio (MLR) Annual Reporting Form for PHP Insurance Company (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) adopting and implementing a comprehensive MLR records maintenance program; (4) ensuring that quality improvement activity (QIA) expenses meet the regulatory definition and are adequately supported with sufficient documentation; (5) ensuring that earned premium is accurately calculated and reported; (6) ensuring that expenses are properly allocated; (7) ensuring that expense allocation methodologies are properly disclosed; and (8) implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions.

To the extent that the findings could be quantified, the recalculation of the Company's 2022 MLRs resulted in decreases to its reported MLRs in the small group and large group markets, increasing the Company's rebate liability for the 2022 reporting year by \$294,278 in the small group market and \$917,891 in the large group market in Michigan.

## **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**

<b>Page</b>	<b>Key Findings</b>
7-8	<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.
8-9	<b>Failure to accurately report incurred claims, as required by §158.140</b> – The Company improperly included in paid claims on its 2020, 2021, and 2022 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 2022 MLR Annual Reporting Form by \$752,105 in the small group market and \$861,304 in the large group market.  The Company improperly included various administrative fees in paid claims on its 2020, 2021, and 2022 MLR Annual Reporting Forms. As a result of this error, the Company overstated the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by \$475,168 in the small group market and \$442,168 in the large group market.
9, 10, 11, 12	<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 2021 and 2022 MLR Annual Reporting Forms, claims incurred but not reported (IBNR) that were already

	<p>included in its direct claim liability. As a result, the Company overstated the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by \$575,741 in the small group market and \$606,095 in the large group market.</p> <p>Due to a formula error, the Company failed to properly report adjusted incurred claims for 2020 in the PY2 column on its 2022 MLR Annual Reporting Form, as required. This error did not impact its MLR calculations.</p> <p>Due to a formula error, the Company improperly reported total fraud reduction expenses on Part 2, Line 2.18a, on its 2022 MLR Annual Reporting Form. This error did not impact the MLR calculations as Line 2.18 was correctly reported.</p> <p>The Company improperly reported earned premiums for 2020 and 2021, in the PY2 and PY1 columns of Part 3, Line 2.1, on its 2022 MLR Annual Reporting Form. As a result, the Company's three-year aggregate earned premiums on its 2022 MLR Annual Reporting Form was overstated by \$164,675 in the small group market and understated by \$13,233 in the large group market.</p> <p>The Company improperly reported the Patient Centered Outcomes Research Institute (PCORI) fee amounts on its 2020, 2021, and 2022 MLR Annual Reporting Forms. As a result, the Company understated its taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form by \$776 in the small group market and \$1,170 in the large group market.</p> <p>The Company improperly excluded from the risk adjustment transfer amounts reported on its 2020, 2021, and 2022 MLR Annual Reporting Forms the amounts for the default risk adjustment charge allocation, the high-cost risk pool (HCRP) charges, and the HHS risk adjustment data validation (HHS-RADV) adjustment amounts. As a result, the Company overstated its three year-aggregate risk adjustment transfer amounts on its 2022 MLR Annual Reporting Form by \$90,798 in the small group market.</p>
9-10	<p><b>Failure to maintain adequate documentation, as required by §158.502</b> – The Company did not maintain the documents and other evidence necessary to enable CCIIO to verify that the MLRs and any rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company 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.</p> <p>The Company did not maintain adequate documentation to support the premium written reported for all samples tested. The precise impact of this error cannot be conclusively determined.</p>
10	<p><b>Reporting of expenses for QIA that did not meet the definition of a QIA expense set forth in §158.150</b> – The Company improperly included in its QIA on its 2022 MLR Annual Reporting Form certain expenses for activities that did not meet the definition of a QIA at §158.150. As a result, the</p>

	Company overstated its three-year aggregate QIA expenses by \$458,072 in the small group market and \$677,508 in the large group market.
11	<b>Failure to properly allocate taxes and licensing and regulatory fees, as required by §158.170</b> – The Company improperly allocated its risk adjustment user fees to the large group market on its 2022 MLR Annual Reporting Form. Because the large group market is not subject to the risk adjustment program, the user fees should not have been allocated to this market. As a result of this error, the Company understated its current year taxes and licensing and regulatory fees on its 2022 MLR Annual Reporting Form in the small group market by \$3,385. This error did not impact the large group market because the amount improperly allocated was only reported in the 12/31 column, and not in the 3/31 column.
11	<b>Failure to report the methods used to allocate expenses, as required by §158.170</b> – The Company failed to report the methods used to allocate its PCORI fee and the insurance provider assessment (IPA) expenses 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 on the adjustments that could be quantified, the examination findings decreased the Company's reported MLRs in the small group and large group markets. The recalculated MLRs in both markets fell below the applicable MLR standards, resulting in a rebate liability of \$294,278 in the small group market and \$917,891 in the large group market for the 2022 reporting year. Due to the lack of adequate documentation supporting the Company's direct premium written, we cannot, at this time, conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLRs and rebates for 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, earned premium, taxes and licensing and regulatory fees, the risk adjustment transfer amounts, and to restate the credibility adjustment in the small group market to 0.0% in accordance with §158.232(d).

### **Recalculated MLRs<sup>1</sup> and Rebates for the Small Group and Large Group Markets for the 2022 Reporting Year**

#### **Michigan**

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$16,904,020	\$20,744,539	86.0%	\$0
As Recalculated	\$14,733,731	\$20,575,703	76.2%	\$294,278

<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.

	Numerator	Denominator	MLR	Rebate
Difference	(\$2,170,289)	(\$168,836)	(9.8%)	\$294,278

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$25,576,844	\$30,569,758	87.3%	\$0
As Recalculated	\$22,989,769	\$30,581,821	75.2%	\$917,891
Difference	(\$2,587,075)	\$12,063	(12.1%)	\$917,891

## **IV. Company Overview**

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

The Company is a for-profit health insurance issuer domiciled in Michigan. The Company sells group health insurance policies in Michigan.

During the 2020, 2021, and 2022 MLR reporting years, the Company operated in the 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 2,941 covered lives and \$17,216,247 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158. There were no lines of business that were not subject to the MLR regulations at 45 CFR Part 158.

### **B. Management**

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

#### **Officers**

##### **Name**

Dennis J. Reese  
Nicole L. Werner  
Paula M. Reichle

##### **Title**

President  
Interim Chief Financial Officer  
Treasurer

#### **Directors**

##### **Name**

Kevin S. Albosta  
John Z. Ayanian  
Keith Dickey  
James F. Dover  
Douglas A. Edema  
John D. Pirich

Dennis J. Reese  
Paula M. Reichle  
Joe J. Ruth



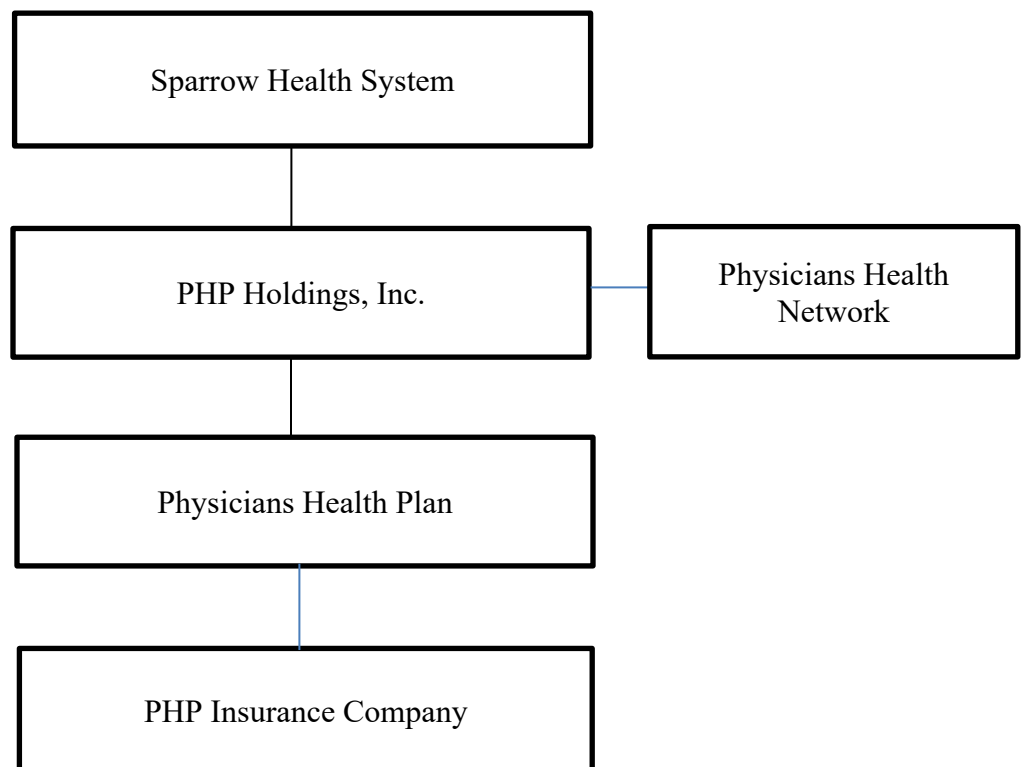
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2022 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
Dennis J. Reese	CEO Attester
Nicole L. Werner	CFO Attester

### **C. Ownership**

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

#### **PHP Insurance Company Organizational Chart as of December 31, 2022<sup>2</sup>**



### **D. Agreements**

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

1. A Service Agreement with PHP Holdings Inc and Physicians Health Network.

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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.

## **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. Accounts and Records**

The Company's main administrative and financial reporting office is located at 1400 East Michigan Avenue, Lansing, Michigan, 48912. 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 and the accuracy of direct premium written reported.

## **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 MLR standard of 80% for the small group market and 85% for the large group market, and thus was not required to pay rebates to its enrollees in these markets.

Based on the reporting errors found during the examination that could be quantified, the Company's MLRs for the 2022 reporting year were recalculated and resulted in a rebate liability of \$294,278 in the small group market and \$917,891 in the large group market. However, due to the lack of adequate documentation supporting the Company's direct premium written, we cannot conclusively assess whether there were additional errors that could have impacted the Company's 2022 MLRs or rebates.

### **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 then-recent group policyholder billing invoices and screen prints of the billing system for seven out of 60 group policies tested that indicated the total number of employees at the time of application (rather than the ATNE on the business days of the calendar year preceding the coverage effective date), and copies of policyholder premium payment checks. Since the Company based its determinations on the number of eligible 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 incorrect group size and market classification determinations noted above, nothing additional came to our attention that would indicate that the samples of policies, claims, and other aggregation-related reporting elements tested during the examination, were not correctly assigned to the appropriate markets and lines of business in accordance with §158.120.

### **Incurred Claims**

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

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2020, 2021, and 2022 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 the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by \$752,105 in the small group market and \$861,304 in the large group market.

#### *Improper Inclusion of Administrative Fees in Incurred Claims*

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2020, 2021, and 2022 MLR Annual Reporting Forms, the administrative fees paid to third-party vendors for claims subrogation investigations and itemized bill reviews. According to §158.140(b)(3)(ii),

amounts paid to third party vendors for administrative fees must not be included in incurred claims. As a result, the Company overstated the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by \$475,168 in the small group market and \$442,168 in the large group market.

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

The Company improperly included in paid claims on Part 2, Line 2.1b, on its 2021 and 2022 MLR Annual Reporting Forms, claims incurred but not reported (IBNR), when these amounts were already included in its direct claim liability on Part 2, Line 2.2b, resulting in a double counting of IBNR. According to the 2022 MLR Annual Reporting Form Filing Instructions, IBNR amounts should be reported on Part 2, Line 2.2b. As a result, the Company overstated the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by \$575,741 in the small group market and \$606,095 in the large group market.

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

Due to a formula error, the Company improperly reported its 2020 adjusted incurred claims on Part 3, Line 1.1, in the PY2 column on its 2022 MLR Annual Reporting Form. According to the 2022 MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 1.1, PY2 column, must be the same as the amount(s) originally reported on the respective prior year's MLR Annual Reporting Form(s). 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 calculations.

Based upon the procedures performed, which include 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**

#### *Improper Reporting of Total Fraud Reduction Expense*

Due to a formula error, the Company improperly reported total fraud reduction expenses on Part 2, Line 2.18a, on its 2022 MLR Annual Reporting Form. The Company reported \$396,148 in the small group market, when \$34,280 should have been reported. According to the 2022 MLR Annual Reporting Form Filing Instructions, the total fraud reduction expenses should be reported on Part 2, Line 2.18a. This error did not impact the MLR calculations as Line 2.18 was correctly reported.

Based upon the procedures performed, other than the reporting error noted above, nothing additional came to our attention that would indicate that the Company did not accurately report the recoveries of paid fraudulent claims, which §158.140(b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

### **Quality Improvement Activities (QIA)**

#### *Insufficient Documentation of QIA*

The Company did not maintain adequate documentation to support the expenses it reported as QIA. Section 158.502 requires an issuer to maintain all documents and other evidence necessary to enable CCIIO to verify compliance with the definitions and criteria set forth in 45 CFR Part

158 and that the MLR and any rebates owed were calculated and provided in accordance with the regulation.

The largest category of QIA expenses reported by the Company was the salaries and related benefits of the employees whose roles and responsibilities included activities that it asserted met the definition of a QIA at §158.150. However, the Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios it used to allocate salaries to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the titles and job descriptions of staff whose salaries were reported as QIA, the percent of staff time allocated to QIA, and other information obtained from the Company related to the employees whose salaries were reported as QIA expenses.

*Improper Inclusion of Expenses for Activities That Do Not Qualify as QIA*

As a result of performing the alternative procedures noted above, we determined that some of the expenses reported as QIA in numerous cost centers included activities that did not qualify as QIA, as defined at §158.150. As a result of this error, the Company overstated its three-year aggregate QIA expenses on its 2022 MLR Annual Reporting Form by \$458,072 in the small group market and \$677,508 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 other QIA expenses were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

**Earned Premium**

*Failure to Maintain Adequate Documentation*

The Company did not adequately maintain supporting documentation for the direct premium written reported on Part 2, Line 1.1, on its 2022 MLR Annual Reporting Form, as required by §158.502. The Company could not provide adequate premium billing support for any of the 30 small group and 30 large group market policies tested. The direct premium written amounts tested could not be directly tied to the monthly amount invoiced and recorded by the Company as cash received from each policyholder. According to §158.502, an issuer must maintain all documents and other evidence necessary to enable CCHIO to verify that the MLR is calculated accurately and that any rebates are calculated and disbursed in accordance with 45 CFR Part 158. The impact of this error could not be determined.

*Improper Reporting of Prior Year Earned Premium*

The Company improperly reported its earned premium for 2020 and 2021 on Part 3, Line 2.1, in the PY2 and PY1 columns, on its 2022 MLR Annual Reporting Form. According to the MLR Annual Reporting Form Filing Instructions, the amount(s) reported on Part 3, Line 2.1, in the PY2 and PY1 columns, must be equal to the amounts originally reported on the respective prior years' MLR Forms. As a result, the Company's three-year aggregate earned premium on its 2022 MLR Annual Reporting Form was overstated by \$164,675 in the small group market and understated by \$13,233 in the large group market.

Due to the lack of adequate documentation supporting the Company's calculation of its premium written, as noted above, we could not determine whether the Company properly reported premium on

a direct basis or whether the data elements underlying the 2020, 2021, and 2022 premium reported on the Company's 2022 MLR Annual Reporting Form were compliant with §158.130.

## **Taxes**

### *Improper Calculation of PCORI Fee*

The Company improperly reported the PCORI fees paid in 2020, 2021 and 2022 on Part 1, Line 3.1b, on the respective 2020, 2021, and 2022 MLR Annual Reporting Forms. In addition, the Company used the incorrect rate to compute the accrual reported on its 2022 MLR Annual Reporting Form. 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 understated its taxes and licensing and regulatory fees reported on Part 3, Line 2.2, on its 2022 MLR Annual Reporting Form by \$776 in the small group market and \$1,170 in the large group market.

### *Improper Allocation of Risk Adjustment User Fee*

The Company improperly allocated its risk adjustment user fees to the large group market on its 2022 MLR Annual Reporting Form. 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 market is not subject to the risk adjustment program, the user fees should not have been allocated to this market. However, because the amount allocated to the large group market was only reported in the 12/31 column on Part 1, Line 3.3b, and not in the 3/31 column, this error did not have any impact on the large group market MLR calculation. However, as a result of the error, the Company understated the current year taxes and licensing and regulatory fees in the small group market by \$3,385.

### *Failure to Disclose Allocation Methodologies*

The Company failed to report the method used to allocate its PCORI fee and the insurance provider assessment (IPA) expenses on its 2020, 2021, and 2022 MLR Annual Reporting Forms, as required by §158.170(b). These errors did not impact the MLR calculations.

Based upon the procedures performed, other than the calculation and 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 reported on Part 2, Line 1.10, on its 2020, 2021, and 2022 MLR Annual Reporting Forms, the amounts for the default risk adjustment charge allocation, the HCRP charges, and the HHS-RADV adjustment amounts. According to the 2022 MLR Annual Reporting Form Filing Instructions, federal risk adjustment program net receipts or charges should include the default risk adjustment charge allocation, any amounts related to the HCRP charges, and the applicable HHS-RADV adjustments. As a result, the Company overstated the three year-aggregate risk adjustment

transfer amounts on its 2022 MLR Annual Reporting Form by \$90,798 in the small group market.

Based upon the procedures performed, other than the reporting error noted above, nothing additional came to our attention that would indicate that the 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 MLRs.

The impact of applying the examination adjustments to recalculate the Company's 2022 MLRs resulted in the Company's preliminary MLR<sup>3</sup> in the small group market, as reported in the PY2, PY1 and CY columns on Part 3 of its 2022 MLR Annual Reporting Form, to fall below the MLR standard of 80% for each year. According to §158.232(d), if the current MLR reporting year and each of the two previous MLR reporting years included experience of at least 1,000 life-years; and if the preliminary MLR for the current MLR reporting year and each of the two previous MLR reporting years fell below the applicable MLR standard for each year, then the credibility adjustment that should be reported is zero. The Company reported greater than 1,000 life-years in the small group market for each of the three years aggregated on its 2022 MLR Annual Reporting Form. Since its recalculated preliminary MLRs for each of the three years fell below the 80% standard, the Company no longer qualifies for the credibility adjustment in the small group market, and therefore, the reported credibility adjustment of 3.6% in this market was restated to zero.

## **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 Michigan Department of Insurance and Financial Services performed a financial examination of the

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<sup>3</sup> See the definition of "preliminary MLR" at § 158.232(f).

Company in 2020 covering the period January 1, 2016 through December 31, 2018. 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 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 PHP Insurance Company'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 rebates of \$294,278 in the Michigan small group market and \$917,891 in the large group market. However, due to the inadequate documentation supporting the Company's direct premium written, we cannot conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

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

### **Corrective Action #1**

The Company must adopt and implement procedures to ensure that it obtains and maintains accurate information from its employer groups at the time of policy application 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. Modifications were made to the determination of the group size in prior years, but adequate documentation was not maintained. We have ensured that we will maintain the documentation including the information showing 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 adopt and implement policies and procedures to ensure accurate reporting of incurred claims in accordance with §158.140 and the MLR Annual Reporting Form Filing Instructions, including ensuring that any amounts paid to its PBM in excess of the cost of prescription drugs paid to pharmacies for its enrollees, and administrative fees paid to third-party vendors, are not included in incurred claims.

#### **Company Response**

The Company acknowledges this finding. We have requested that our PBM provides the necessary supporting documentation to exclude the PBM spread. We have ensured that the PBM spread and administrative fees paid to third-party vendors were removed from our MLR.

#### **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 IBNR amounts, prior year adjusted incurred claims, total fraud reduction expenses, and prior year earned premium, and correctly calculating and reporting PCORI fees and risk adjustment transfer amounts.

#### **Company Response**

The Company acknowledges this finding. We have improved our systems for calculating these amounts by updating our formulas. We have included more checks into the process to ensure that we properly report IBNR amounts, prior year adjusted incurred claims, total fraud reduction expenses, and prior year earned premium, as well as for correctly calculating and reporting PCORI fees and risk adjustment transfer amounts.

#### **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. The records maintenance program should also include maintaining documentation, as may be necessary, to enable CCIIO to verify the accuracy of direct premium written.

*Company Response*

The Company acknowledges this finding. We have updated QIA processes and educated our leadership on the requirements of §158.502. We have executed and maintained documentation of quantitative analyses of our employee activities relating to salary-related expenses 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. We have updated our QIA processes and educated our leadership on the requirements of 158.150. We have executed and maintained documentation of quantitative analyses of our employee activities relating to salary-related expenses classified as QIA.

*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 it allocates its expenses in accordance with §158.170 and the MLR Annual Reporting Form Filing Instructions, including ensuring that risk adjustment user fees are allocated to the appropriate market(s) and ensuring the accurate disclosure of the methods used to allocate PCORI fee and IPA expenses to each market.

*Company Response*

The Company acknowledges this finding. We have implemented adjustments in our documentation for reporting year 2024 to ensure appropriate allocation of expenses, including risk adjustment user fees. We have also ensured accurate disclosure of the methods used to allocate the PCORI fee and IPA expenses to each market.

*CCIIO Reply*

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

### **Corrective Action #7**

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**

The Company acknowledges this finding. We re-filed our 2022 MLR Annual Reporting Form with the errors noted in this report corrected on October 28, 2025. Additionally, the rebates due to our enrollees have been recalculated and the rebates were sent out in August 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.**

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

### **Company Response**

PHP/University of Michigan appreciates its partnership with CCIIO and its agents.