

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**Sanford Health Plan**  
(Sioux Falls, South Dakota)  
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 23, 2021

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 Sanford Health Plan (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 that reads "Christina A. Whitefield".

Christina A. Whitefield, Director  
Medical Loss Ratio 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 Sanford Health Plan (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. The Company must maintain adequate documentation to determine group size of group policyholders, correctly determine the market classification of policies, ensure that activities and expenses reported as quality improvement activity (QIA) expenses meet the regulatory definition of QIA and that sufficient documentation exists supporting such determinations, ensure that sufficient documentation exists to support premium amounts, ensure that premium and federal income tax amounts are correctly reported and allocated, and properly calculate the deductible factor.

Based on the adjustments that could be quantified, the findings resulted in a net decrease to the Company's reported MLRs in the Iowa large group market, increasing the rebate liability for the 2015 reporting year by an estimated \$98,954. To the extent the findings could be quantified, they did not result in additional rebate liability for the 2015 reporting year in any of the other states and markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect. However, due to the lack of adequate documentation supporting group size and market classification, we cannot, at this time, conclusively assess the full impact of the examination findings on the Company's MLRs or whether there would be an additional impact on its rebate liability in any of the states or markets in which it operated.

## **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 (PPACA), 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 responses. CCIIO reserves the right to review the actual implementation of the Company’s corrective action and proposed action plan for each finding in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

### **III. Summary of Findings**

<b>Page</b>	<b>Key Findings</b>
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 the average number of employees from each group policyholder at the time of initial application or policy renewal and therefore may not have correctly determined each group’s size and market classification.
8	<b>Failure to assign the correct market classification in accordance with the definitions in §158.103</b> – In the sample tested, the Company incorrectly classified 54 group policies. This resulted in misallocation of the Company’s earned premium and incurred claims between the affected markets. Consequently, as a result of the examination, a total of \$8,041,319 in incurred claims and \$6,003,573 in earned premiums were reallocated from the small group to the large group market in the impacted states, and a total of \$2,665,448 in incurred claims and \$97,606 in earned premiums were reallocated from the large group to the small group market in the impacted states.
8, 9	<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 documentation and other evidence supporting its determination of each group policyholder’s size. In addition, the Company

Page	Key Findings
	<p>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. There were no adjustments made to the Company’s MLR calculations as a result of this finding.</p> <p>Furthermore, the Company did not maintain adequate documentation supporting the accuracy of the premium amounts reported on its 2015 MLR Annual Reporting Form. There were no adjustments made to the Company’s MLR calculations as a result of this finding.</p>
10	<p><b>Failure to accurately report earned premium, as required by §158.130</b> – The Company incorrectly included amounts related to the risk adjustment and risk corridors programs in written premium. As a result, the Company overstated the earned premium used in the MLR and rebate calculations by a net total of \$457,882 in the individual market and \$1,361,058 in the small group market on its 2015 MLR Annual Reporting Form.</p>
10	<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 report the amount of advance payments of the premium tax credit (APTC) it received in the individual market on the 2015 MLR Annual Reporting Form. In addition, the Company reported federal income taxes on the 2015 MLR Annual Reporting Form line reserved for federal and state licensing and regulatory fees, rather than on the line reserved for federal income taxes, as required by MLR Annual Reporting Form Filing Instructions. These errors did not impact the MLR calculations.</p>
10	<p><b>Failure to properly report federal income taxes, as required by §158.162</b> – The Company improperly included federal taxes on investment income and realized capital gains and losses in its federal income taxes on its 2015 MLR Annual Reporting Form.</p>
10	<p><b>Failure to properly allocate taxes and regulatory fees, as required by §158.170</b> – The Company allocated federal income taxes to states and markets based on the pro rata proportion of premium, which did not yield the most accurate results as required by 45 CFR 158.170. In addition, the Company failed to allocate any federal income taxes to the individual markets in North Dakota and South Dakota, instead allocating federal incomes taxes only to the small group and large group markets in those states.</p>
11	<p><b>Failure to correctly calculate the average deductible in accordance with §158.232(c)</b> – The Company incorrectly determined the average per person deductible for policies with a family deductible, and incorrectly computed the average deductible of its individual market policies using the months enrolled per contract for the current year, rather than the 3-year aggregation of life-years, to weight each deductible level.</p>

These examination findings resulted in net decreases to the Company’s reported MLR in the Iowa large group market, the North Dakota individual and small group markets, and the South

Dakota individual and large group markets, and net increases in its reported MLRs in the North Dakota large group market and the South Dakota small group market. In the Iowa large group market, the lower recalculated MLR fell below the 85% MLR standard, resulting in an additional rebate liability of \$98,954 for the 2015 reporting year. In the Iowa small group market, the Company reported fewer than 1,000 life-years during the three-year aggregation period and is therefore presumed to meet or exceed the 80% MLR standard, in accordance with §158.230(d). However, due to the lack of adequate documentation supporting group size and market classification, we cannot conclusively assess whether there were additional errors that would impact the Company’s MLRs or rebate liability.

The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR and rebates for 2015, for the states and markets in which the MLRs changed as a result of the examination are shown in the following tables. The difference between the amounts in the “As Filed” and “As Recalculated” rows reflect the net impact of the adjustments made to reallocate the experience of certain misclassified policies, remove risk adjustment and risk corridors amounts from earned premium, disallow federal income taxes, and disallow the deductible factors in the credibility adjustment. The amounts in the “As Recalculated” rows additionally include the Company’s revisions related to the recovered risk corridors payment amounts, as described in Subsequent Events section of this report.

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

**Iowa**

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$4,564,732	\$5,891,876	85.5%	\$0
As Recalculated	\$4,398,192	\$6,087,647	80.3%	\$98,954
Difference	(\$166,540)	\$195,771	(5.2)%	\$98,954

**North Dakota**

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$12,917,231	\$13,988,203	97.6%	\$0
As Recalculated	\$12,054,681	\$13,428,939	93.9%	\$0
Difference	(\$862,550)	(\$559,264)	(3.7)%	\$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$40,030,948	\$37,099,634	110.8%	\$0
As Recalculated	\$32,658,431	\$30,441,471	110.1%	\$0
Difference	(\$7,372,517)	(\$6,658,163)	(0.7)%	\$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.

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$200,566,074	\$183,159,193	110.8%	\$0
As Recalculated	\$207,938,591	\$188,758,967	111.5%	\$0
Difference	\$7,372,517	\$5,599,774	0.7%	\$0

#### **South Dakota**

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$51,841,520	\$42,680,823	124.3%	\$0
As Recalculated	\$45,457,282	\$42,782,205	108.5%	\$0
Difference	(\$6,384,238)	\$101,382	(15.8%)	\$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$28,561,765	\$31,973,414	92.7%	\$0
As Recalculated	\$29,066,191	\$31,632,540	95.3%	\$0
Difference	\$504,426	(\$340,874)	2.6%	\$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$307,728,405	\$315,223,591	97.9%	\$0
As Recalculated	\$305,898,299	\$315,234,175	97.3%	\$0
Difference	(\$1,830,106)	\$10,584	(0.6%)	\$0

## **IV. Company Overview**

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

The Company is a not-for-profit Health Maintenance Organization (HMO) domiciled in South Dakota and licensed to operate in Iowa, North Dakota, and South Dakota. The Company sells comprehensive health insurance in the individual and group markets, and provides administrative services to self-funded group health plans.

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 107,979 covered lives and \$334,313,163 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 171,039 covered lives and \$616,128,774 in direct earned premium from all health lines of business. Lines of business not subject to the MLR regulations at 45 CFR Part 158 include Medicare Supplement insurance, Medicare Advantage plans, and administration of self-funded group health plans.

## **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>
Kirk J. Zimmer	President
Kelby K. Krabbenhoft	Chief Executive Officer
Jeff D. Sandene	Chief Financial Officer
Rich G. Adcock	Executive Vice President

### **Directors**

<b><u>Name</u></b>
Rich G. Adcock
Clayton Van Balen
Sheila Beermann
Lori Devries
Kimberly Elbers
Larry Heidebrink
Craig Lambrecht
Robert St. Michel
Denise Myhre
Steve Nelson
Marlin Overman
Dwight W. Thompson
Steve Watkins

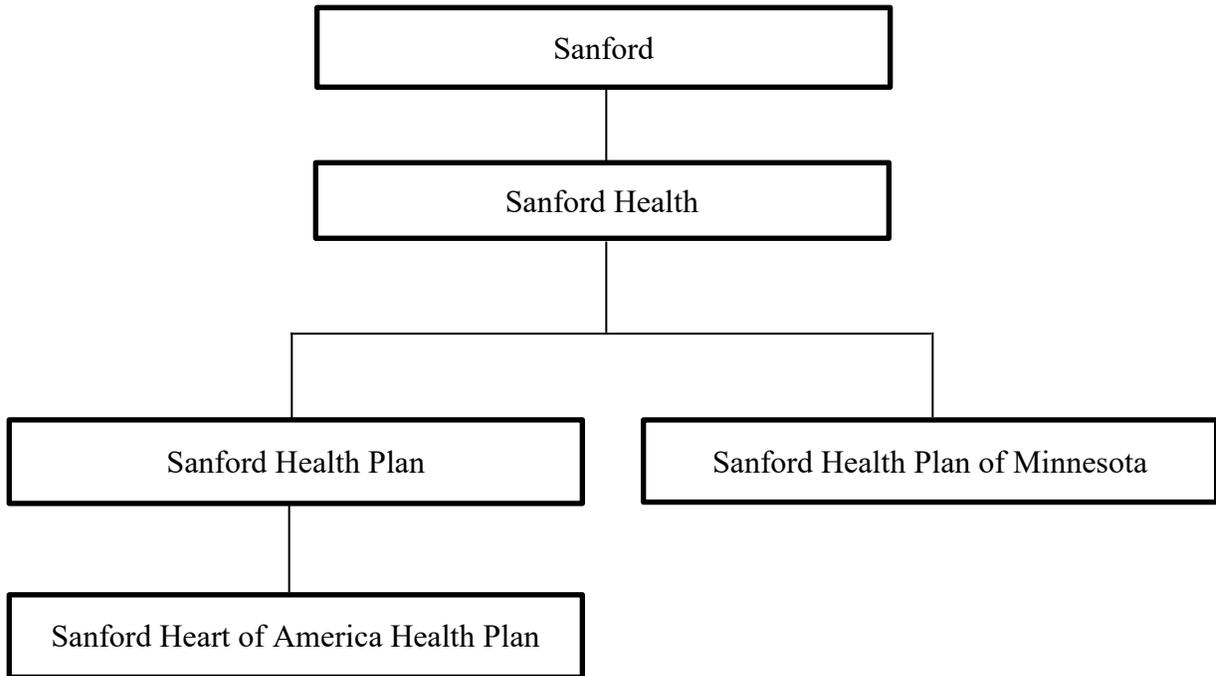
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2015 MLR Annual Reporting Form were:

<b><u>Name</u></b>	<b><u>Title</u></b>
Kirk J. Zimmer	CEO Attester
Jeff D. Sandene	CFO Attester

## **C. Ownership**

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

**Sanford Health Plan  
Organizational Chart as of December 31, 2015**



**D. Agreements**

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

1. A Corporate Services Agreement with Sanford Health.
2. A Corporate Services Agreement with Sanford Health Plan of Minnesota.
3. A Corporate Services Agreement with Sanford Heart of America Health Plan.

**E. Reinsurance**

During 2013, 2014, and 2015, 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 300 Cherapa Place, Suite 201, Sioux Falls, South Dakota, 57103. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted below, 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 obtain accurate information or maintain documentation regarding the employee count of group policyholders, which is necessary to determine group size and market classification. In addition, the Company was unable to provide adequate documentation supporting certain premium amounts and expenses reported as QIA and did not maintain adequate documentation supporting the accuracy of the premium amounts reported on its 2015 MLR Annual Reporting Form.

## **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.

During 2013, 2014, and 2015, the Company reported business subject to the MLR reporting and rebate requirements of 45 CFR Part 158 in Iowa, North Dakota, and South Dakota. In the Iowa small group market, the Company reported fewer than 1,000 life-years during the three-year aggregation period and therefore is presumed to meet or exceed the MLR standard in accordance with §158.230(d). In all other states and markets in which it operates, the Company reported that it met the applicable MLR standards and thus was not required to pay rebates to its enrollees.

Based on the errors found during the examination, MLRs for the 2015 reporting year were recalculated and resulted in a rebate liability of \$98,954 in the Iowa large group market.

### **A. MLR Data**

#### **Market Classification**

##### *Incorrect Procedures for Determining Group Size*

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 employs 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 number of employees 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 determine employer size in accordance with these definitions, and therefore may have incorrectly determined the market classification for group policies in the period covered by this examination.

Based on the available documentation, the Company determined the group size, and consequently the market classification, of its policies by utilizing the total number of eligible employees at the time of either the initial policy application or policy renewal. The precise impact of the failure to accurately determine group size and market classification cannot be

conclusively determined due to the Company's lack of adequate documentation necessary to support its determinations.

#### *Incorrect Reporting of Market Classification*

In addition to not employing procedures to correctly determine the average number of employees of its group policyholders, the Company did not consistently assign policies to the correct market classification based on the (possibly incorrect) group size information that was available to the Company. Based on testing of the market classification of the Company's policies as well as premium data reconciliation, 52 group policies were incorrectly classified by the Company as small group policies, when, based on the information available and the Company's (possibly incorrect) group size determinations, the policies should have been reported in the large group market for 2015, as the groups had more than 50 employees. In addition, 2 group policies were incorrectly classified by the Company as large group policies, when, based on the information available and the Company's (possibly incorrect) group size determinations, the policies should have been reported in the small group market for 2015, as the groups had 50 or fewer employees. Consequently, \$8,041,319 in aggregate incurred claims and \$6,003,573 in aggregate earned premiums were reallocated from the small group to the large group market, and \$2,665,448 in aggregate incurred claims and \$97,606 in aggregate earned premiums were reallocated from the large group to the small group market.

#### **Aggregation**

Other than the incorrect group size and market classification determinations noted above, based on procedures performed, nothing additional came to our attention that would indicate that the samples of policies, claims, and other items tested during the examination were not correctly assigned to the appropriate states, markets, and lines of business, in accordance with §158.120.

#### **Incurred Claims**

Other than the incorrect group size and market classification determinations noted above, based upon the procedures performed, including the validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing additional came to our attention that would indicate that the incurred claims were not accurately reported.

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

Based on 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**

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 are calculated and provided in accordance with this regulation.

The Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA. The examiners performed

alternative testing procedures, such as reviewing the titles and job descriptions, allocation percentages, and other information obtained from the Company related to employees whose salaries were reported as QIA expenses. Based on these alternative procedures, the examiners concluded that any expenses for the portion of activities that may not have qualified as QIA, such as cost effectiveness initiatives, administrative functions, and managing claims denials and appeals, were likely to be immaterial and therefore no adjustments were made to the Company's MLR calculations as a result of this finding.

Based upon the procedures performed, other than the item 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 maintain supporting documentation evidencing billing of premium amounts. 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 are calculated and provided in accordance with the federal MLR regulations. The Company could not provide support for premium billing for 32 policies in the sample of 77 tested in the individual, small group, and large group markets. Based on a review of alternative supporting documentation provided by the Company for these policies, such as payment records or screen prints from its policy administration system showing recorded billing adjustments, the examiners determined that the premium amounts appeared accurate. Therefore, no adjustments were made to the Company's MLR calculations as a result of this finding.

### *Incorrect Reporting of Earned Premium*

The Company incorrectly included amounts related to the federal risk adjustment and risk corridors programs in direct written premium reported on Part 2, Line 1.1 of the 2015 MLR Annual Reporting Form in the individual and small group markets. The 2015 MLR Annual Reporting Form Filing Instructions instructed issuers to exclude the amounts related to these programs from written premium in Part 2, Line 1.1 and to instead report them on Part 2, Lines 1.10 and 1.11, in order to avoid double-counting these amounts in the MLR and rebate calculations. As result of this error, the Company overstated the earned premium used in the MLR and rebate calculations by a net total of \$457,882 in the individual market and \$1,361,058 in the small group market on its 2015 MLR Annual Reporting Form.

### *Incorrect Reporting of APTC Received*

The Company failed to report on its 2015 MLR Annual Reporting Form the amount of APTC it received in the individual market, which totaled \$8,268,771. This error did not impact the MLR calculation 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 calculation.

Other than the errors noted above, as well as the possibly incorrect group size and market classification determinations noted earlier, based upon the procedures performed, nothing additional came to our attention that would indicate that earned premium was not properly

reported on a direct basis or that the data elements underlying the 2013, 2014, and 2015 premium as reported on the Company's 2015 MLR Annual Reporting Form were not reported in accordance with §158.130.

## **Taxes**

### *Incorrect Reporting of Federal Income Taxes*

The Company incorrectly reported federal income taxes on Part 1, Line 3.3b of its 2015 MLR Annual Reporting Form, rather than on Line 3.1a. The 2015 MLR Annual Reporting Form Filing Instructions instructed issuers to report federal income taxes on Line 3.1a, and to report all federal and state regulatory authority licenses and fees on Line 3.3b. There was no impact on the Company's MLR calculation or rebate liability for 2015 from this reporting error, as it did not change the total amount of taxes and regulatory fees excluded from premium on the Company's 2015 MLR Annual Reporting Form.

### *Improper Reporting of Investment Income and Capital Gains Tax*

The Company improperly included its federal taxes on investment income and capital gains in its federal income taxes reported on its 2015 MLR Annual Reporting Form. According to §158.162(a)(2), federal taxes on investment income and capital gains are not excluded from premium in the MLR and rebate calculations.

### *Incorrect Allocation of Taxes and Fees*

The Company's methodology for allocating federal income taxes was determined to not be in compliance with §158.170, which requires allocation to be based on generally accepted accounting methods that are expected to yield the most accurate results. The Company allocated federal income taxes between its states and markets based on premiums, rather than the pre-tax underwriting gain or loss in each state and market. This was deemed to not be a reasonable basis for a federal income tax allocation methodology, as premium revenue does not reflect the effective tax rate or tax expenses associated with or incurred by the Company for the operations in each state and market and therefore would not yield the most accurate results. In addition, the Company failed to allocate any federal income taxes to the individual markets in North Dakota and South Dakota, instead allocating federal incomes taxes only to the small group and large group markets in those states.

Due to the unreasonable federal income tax allocation methodology, the failure to allocate federal income taxes to the individual market, and the improper inclusion of the investment income and capital gains tax, and the lack of sufficient documentation to correct these errors, the three-year aggregate federal income taxes on the Company's 2015 MLR Annual Reporting Form totaling (\$15,540) in the small group market and (\$99,838) in the large group market were deemed to be unsupported and were removed for purposes of the MLR recalculations.

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

Other than the errors noted above regarding the inclusion of federal risk adjustment and risk corridors amounts in written premium, based upon the procedures performed, nothing additional came to our attention that would indicate that the Company did not properly report the expected payments under the federal transitional reinsurance program, or the expected charges and

payments under the federal 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**

### *Incorrect Calculation of the Average Deductible*

The Company incorrectly calculated the average deductible for its policies in the North Dakota and South Dakota individual markets for purposes of calculating the credibility adjustment. The Company incorrectly determined the per person deductible for policies with a family deductible as required by §158.232(c)(i), and weighted each deductible level using the months enrolled per contract for the current year instead of the 3-year aggregation of life-years for each deductible level as required by §158.232(c)(ii). As a result of the incorrectly calculated average deductible reported on Part 3, Line 4.3 of its 2015 MLR Annual Reporting Form, the deductible factor was incorrectly reported on Part 3, Line 4.4. Based on the documentation provided by the Company, the examiners could not determine the accurate average deductible or deductible factor in the individual market in North Dakota and South Dakota, and therefore restated the deductible factors for the individual markets in these states to 1.0.

Other than the use of incorrect average deductibles in the credibility adjustment calculation, 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.

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

According to its 2013, 2014, and 2015 MLR Annual Reporting Forms, the Company did not report any rebates owed as a result of the MLR calculations and consequently did not issue any Notices of rebates for the 2013, 2014, or 2015 reporting years, in accordance with §158.250.

## **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 South Dakota Department of Labor and Regulation performed a financial examination of the Company in 2012 covering the period January 1, 2006 through December 31, 2010. 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. On April 27, 2020, the Supreme Court ruled that section 1342 of the PPACA created an enforceable government obligation to pay issuers the amounts previously unpaid for the 2014-2016 benefit years under the federal risk corridors program.<sup>2</sup> The Company recently recovered risk corridor payments for 2014, 2015, and

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<sup>2</sup> *Maine Community Health Options v. United States*, 140 S. Ct. 1308 (2020), 590 U.S. \_\_ (2020).

2016, which were not previously included in full on the Company's 2015-2018 MLR Annual Reporting Forms.<sup>3</sup> On December 30, 2020, CMS issued final guidance clarifying how issuers should revise their 2015-2018 MLR Annual Reporting Forms to reflect risk corridors payment amounts recovered as a result of the litigation and pay any additional rebates to enrollees, if required.<sup>4</sup> The risk corridors payment amounts recovered by the Company for the 2014 and 2015 benefit years impact its 2015 MLR Annual Reporting Form because the 2014 and 2015 data are included on that form. The amounts described in this examination report incorporate the Company's revisions related to the recovered risk corridors payment amounts.

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

CCIIO examined Sanford Health Plan's 2015 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 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.

Due to the lack of adequate documentation supporting group size and market classification, we cannot, at this time, conclusively assess the impact of the examination findings on the Company's MLRs or whether there would be an additional impact on its rebate liability in any of the states or markets in which it operates. Based on the adjustments that could be quantified, the findings resulted in a net decrease to the Company's reported MLR in the Iowa large group market, increasing the rebate liability for the 2015 reporting year by an estimated \$98,954. It was estimated that no additional rebate liability for the 2015 reporting year is due in any of the other states and markets in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect.

As a result of this examination, 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 the necessary 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 applicable definitions under 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 related to the average number of employees for the calendar year preceding the coverage effective (or renewal) date. Alternatively, for the 2017 and later reporting years, the Company may elect to use the

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<sup>3</sup> [https://www.regtap.info/uploads/library/RC\\_CSRandMLR\\_091516\\_v1\\_5CR\\_091516.pdf](https://www.regtap.info/uploads/library/RC_CSRandMLR_091516_v1_5CR_091516.pdf). See also, MLR Annual Reporting Form Instructions for 2015 through 2018, available at [https://www.cms.gov/ccio/Resources/Forms-Reports-and-Other-Resources/index#Medical\\_Loss\\_Ratio](https://www.cms.gov/ccio/Resources/Forms-Reports-and-Other-Resources/index#Medical_Loss_Ratio).

<sup>4</sup> <https://www.cms.gov/files/document/mlr-guidance-rc-recoveries-and-mlr-final.pdf>.

applicable state employee counting method, unless the state method does not take into account non-full-time employees, in which case the full-time equivalent method described in section 4980H(c)(2) of the Internal Revenue Code should be used. The Company must utilize this information to accurately determine the market classification of its policies in accordance with the requirements of §158.103.

Company Response

“Sanford Health Plan 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. Following the meeting with the examiners in June 2017 regarding the 2015 MLR examination summary memorandum, changes were implemented for the 2017 MLR filing year.”

CCIIO Reply

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

**Corrective Action #2**

The Company must adopt and implement a comprehensive MLR records maintenance program under which it maintains all documentation and evidence necessary to enable CCIIO to verify compliance with each element included in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should include storing documentation related to the number of employees of group policyholders, as well as maintaining evidence of premium billing. The records maintenance program should also include maintaining adequate documentation, as may be necessary, to enable CCIIO to verify that activities included in QIA meet the definition of QIA and that the Company’s allocation of various expenses reported as QIA is reasonable. For salary-related expenses classified as QIA, this would include performing time studies of employee activities and/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 should be considered as allowable QIA expenses.

Company Response

“Sanford Health Plan has a procedure in place for records maintenance to verify compliance for each element of the MLR Annual Reporting Form. Annually documents are requested from employer groups to calculate group size and records are retained to support group size and market classification. Premiums are invoiced and reports are maintained to support accuracy of premium amounts reported. Expenses related to QIA are annually reviewed and detailed documentation is retained.”

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 earned premium and amounts related to the risk adjustment and risk corridor programs, federal income taxes, and APTC amounts.

Company Response

“Sanford Health Plan annually reviews the filing requirement for the MLR Annual Reporting Form and the applicable annual filing instructions. Reporting requirements have been further clarified and are followed in the revised 2015 MLR filing. Reporting for earned premium and amounts related to risk adjustment and risk corridor programs and APTC amount were incorporate in the 2016 MLR filings. Changes to for federal income taxes are addressed in Corrective Action #4.”

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 the federal income taxes excluded from earned premium meet the requirements of §158.162, and that federal income taxes are properly and accurately allocated in accordance with §158.170.

Company Response

“Sanford Health Plan reviewed requirements for federal income tax exclusion from earned premium. Federal income taxes were moved to the appropriate line on the MLR report subsequent to the 2015 filing. The allocation requirements were retroactively implemented, and changes will be reflected in the revised 2015 MLR filings. The allocation methodology was reviewed and will be implemented for the 2020 MLR filing year.”

CCIIO Reply

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

**Corrective Action #5**

The Company must adopt and implement procedures to ensure that it calculates the average deductible in accordance with §158.232(c), including correctly calculating the per person deductible for policies with a family deductible and weighting each deductible level using aggregate life-year experience. Alternatively, the Company may elect to use a deductible factor of 1.0 in lieu of calculating average deductibles.

Company Response

“Sanford Health Plan implemented procedures to ensure average deductible is calculated in accordance with current regulatory guidance. These changes were implemented for the 2016 MLR filing year subsequent to discussions in June 2017 regarding the 2015 MLR examination summary memorandum from the examiners.”

CCIIO Reply

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

**Corrective Action #6**

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 rebates due to its enrollees. Any underpaid

rebates calculated by the Company as a result of the findings herein must 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

“Sanford Health Plan will re-file the 2015 MLR Annual Reporting Form and pay rebates for Iowa Large Group on or prior to May 21, 2021.”

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.