Final

Report on the

Medical Loss Ratio Examination

of

South Dakota State Medical Holding Company, Inc.
(Sioux Falls, South Dakota)

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

December 8, 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 South Dakota State Medical Holding Company, Inc. (the Company) for the 2022 reporting year, including 2022, 2021, and 2020 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's response and CCIIO's evaluation of the response.

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Data and Analytics Division
Oversight Group
Center for Consumer Information & Insurance Oversight
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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 South Dakota State Medical Holding Company, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2022 MLR Annual Reporting Form contains numerous elements that are not compliant with the requirements of 45 CFR Part 158, and that impact consumer rebates.

We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including: (1) ensuring that incurred claims are properly and accurately calculated and reported; (2) implementing policies and procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions; (3) ensuring that quality improvement activity (QIA) expenses meet the regulatory definition, are adequately supported with sufficient documentation, and are properly allocated; (4) ensuring the accurate calculation and reporting of earned premiums; (5) ensuring that expense allocation methodologies are properly disclosed; and (6) making a good faith effort to follow up on any unclaimed MLR rebates.

The examination findings resulted in net increases to the Company's 2022 MLRs in the individual, small group, and large group markets. As a result, the Company's recalculated rebate liability was $49,027 less than reported in the small group market and $23,701 less than reported in the large group market.

II. Scope of Examination

CCIIO examined the Company's 2022 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 45 CFR Part 158 implements section 2718 of the Public Health Service Act (PHS Act). Section 2718 of the PHS Act, as added by the Patient Protection and Affordable Care Act (ACA), generally requires health insurance issuers to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and regulatory fees, expended by an issuer on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires an issuer to provide rebates to consumers if it does not meet the applicable MLR standard (generally, 80% in the individual and small group markets and 85% in the large group market).

This is the first examination of the Company's MLR Annual Reporting Form performed by CCIIO. The examination covered the reporting period of January 1, 2020 through December 31, 2022, including 2020, 2021, and 2022 experience and claims run-out through March 31, 2023. We conducted the examination in accordance with the CCIIO Medical Loss Ratio Examination Handbook (the Handbook). The Handbook sets forth the guidelines and procedures for planning and performing an examination to evaluate the validity and accuracy of the data elements and calculated amounts reported on the MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The examination included assessing the principles used and significant estimates made by the Company, evaluating the reasonableness of expense allocations, and determining compliance with relevant statutory accounting standards, MLR regulations and guidance, and the MLR Annual Reporting Form Filing Instructions.

The Company's response to each finding appears after the finding in the Conclusion, Corrective Actions, Company Responses, and CCIIO Replies section of this Report. The Company's implementation of the corrective actions was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's replies are based solely on a review of the Company's response. CCIIO reserves the right to review the actual implementation of the Company's corrective action and proposed action plan for each corrective action in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
7	**Failure to accurately report incurred claims, as required by §158.140 –** 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 the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by $155,518 in the individual market, $554,263 in the small group market, and $160,316 in the large group market.
8, 10, 11	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary, as required by §158.110 –** The Company failed to include in paid claims on its 2022 MLR Annual Reporting Form, the amounts paid for prescription drug costs, and failed to deduct from paid claims the amount of prescription drug rebates. As a result, the Company understated its current year incurred claims on its 2022 MLR Annual Reporting Form by $494,281 in the individual market, $1,036,903 in the small group market, and $152,333 in the large group market. The Company failed to restate its 2020 and 2021 incurred claims in the prior year (PY2 and PY1) columns on its 2022 MLR Annual Reporting Form for the individual, small group and large group markets. As a result, the Company overstated the three-year aggregate incurred claims on its 2022 MLR Annual Reporting Form by $149,278 in the individual market, and understated its incurred claims by $318,177 in the small group market and $315,567 in the large group market. The Company improperly reported federal income taxes on its 2021 and 2022 MLR Annual Reporting Forms. As a result of the net effect of these errors, the Company overstated its three-year aggregate taxes and licensing

	and regulatory fees on its 2022 MLR Annual Reporting Form by $102,385 in the individual market,$395,263 in the small group market, and $38,679 in the large group market. The Company improperly excluded from its risk adjustment transfer amounts reported on its 2021 MLR Annual Reporting Form the HHS risk adjustment data validation (HHS-RADV) adjustment amounts related to the 2017 benefit year. As a result, the Company overstated its three-year aggregate risk adjustment transfer amounts on its 2022 MLR Annual Reporting Form by $8,237 in the small group market. The Company failed to report unclaimed rebates from prior MLR reporting years on Part 4 of its 2022 MLR Annual Reporting Form. This error did not impact the MLR calculations.
8	**Failure to maintain adequate documentation, as required by §158.502** – The Company did not maintain the documents and other records necessary to enable CCIIO to verify that the MLRs and any rebates owed were calculated in accordance with 45 CFR Part 158. Specifically, the Company did not maintain the documents and other records necessary to enable CCIIO to verify that the expenses reported as QIA met the definition set forth in §158.150. As a result, the Company's current year QIA expenses on its 2022 MLR Annual Reporting Form totaling $24,825 in the individual market, $52,752 in the small group market, and $25,861 in the large group market, were disallowed.
9	**Failure to properly allocate QIA expenses, as required by §158.170 -** The Company improperly allocated QIA expenses on its 2020 and 2021 Annual Reporting Forms in a manner that did not yield the most accurate results, as required by §158.170. As a result, the Company's three-year aggregate QIA expenses on its 2022 MLR Annual Reporting Form were understated by $14,875 in the individual market and $3,585 in the small group market, and overstated by $18,460 in the large group market.
9	**Failure to properly report the method of allocation of QIA expenses, as required by §158.170 –** The Company failed to report the method used to allocate its QIA expenses to each market on its 2022 MLR Annual Reporting Form. This error did not impact the MLR calculations.
9-10	**Failure to accurately report earned premium, as required by §158.130** – The Company improperly excluded from direct premium written on its 2020, 2021, and 2022 MLR Annual Reporting Forms, the monthly billing fee it charged its policyholders as a condition of receiving coverage for small group market grandfathered and transitional plans. As a result, the Company understated its three-year aggregate earned premium on its 2022 MLR Annual Reporting Form by $127,777 in the small group market.
10	**Failure to properly report the method of allocation of expenses, as required by §158.170 –** The Company failed to report the methods used to allocate its PCORI fees, state premium taxes, and other federal and state

	regulatory authority licenses and fees on its 2020, 2021, and 2022 MLR Annual Reporting Forms. This error did not impact the MLR calculations.
11	**Failure to make a good faith effort to locate and deliver unclaimed rebates to enrollees, as required by §158.244 –** The Company's policies and procedures for locating and delivering rebates to enrollees did not include any follow-up with enrollees whose unclaimed rebates were less than $50. This error did not impact the MLR calculations.

These findings resulted in increases to the Company's reported MLRs in the individual, small group, and large group markets. As a result, the Company's recalculated rebate liability was $49,027 less than reported in the small group market and $23,701 less than reported in the large group market.

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, and risk adjustment transfer amounts.

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

South Dakota

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$8,244,327	$8,327,858	106.2%	$0
As Recalculated	$8,423,862	$8,430,243	107.1%	$0
Difference	$179,535	$102,385	0.9%	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$18,018,947	$29,610,145	60.9%	$1,798,599
As Recalculated	$18,778,834	$30,133,185	62.3%	$1,749,572
Difference	$759,887	$523,040	1.4%	($49,027)

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$6,981,973	$9,907,994	76.7%	$92,899
As Recalculated	$7,245,236	$9,946,673	79.1%	$69,198
Difference	$263,263	$38,679	2.4%	($23,701)

[1] The MLRs shown may not equal the quotient of the numerator divided by the denominator due to the inclusion of a credibility adjustment, in accordance with §158.230.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health insurance issuer domiciled in South Dakota. The Company sells individual and group health insurance policies in South Dakota.

During the 2020, 2021, and 2022 MLR reporting years, the Company operated in the individual, small group, and large group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2022, the Company reported a total of 989 covered lives and $13,632,285 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	Title
Bob Sutton	President
Richard G. Korman	Vice President
Julie N. Lautt	Secretary/Treasurer

Directors

Name	
Michael S. Bender	Clark W. Likness
Douglas R. Ekeren	Debra K. Muller
Andrew Ellsworth	Clark E. Sinclair
Julie N. Lautt	Bob Sutton

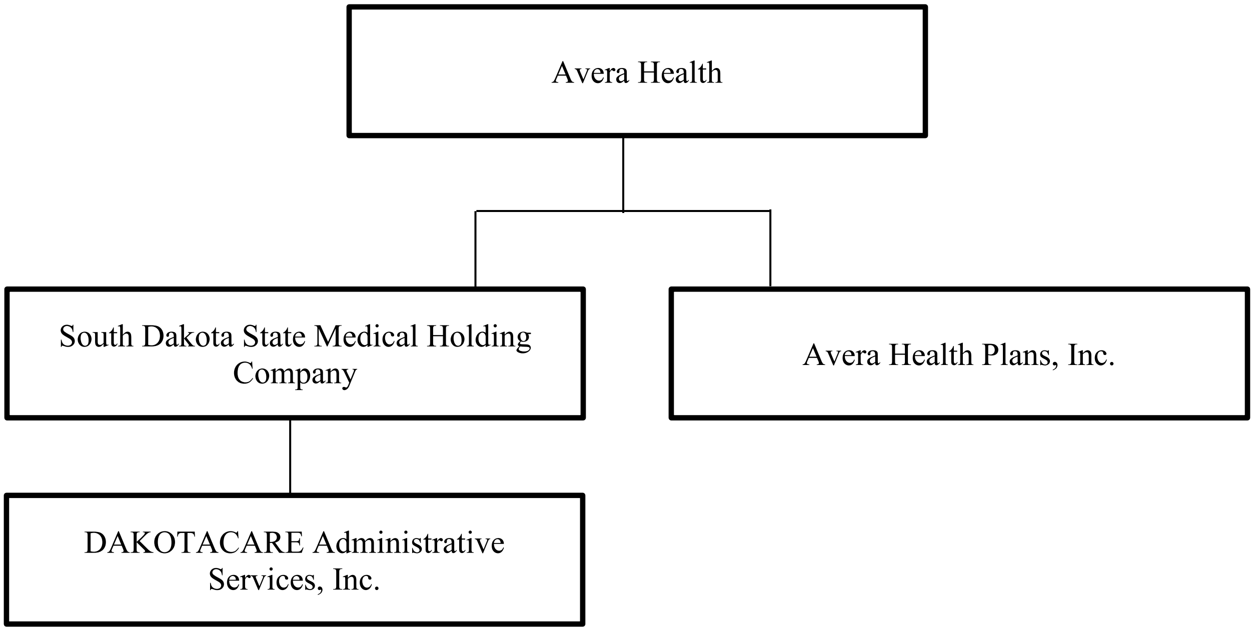
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2022 MLR Annual Reporting Form were:

Name	Title
Debra K. Muller	CEO Attester
Christopher Jesser	CFO Attester

C. Ownership

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

South Dakota State Medical Holding Company, Inc.
Organizational Chart as of December 31, 2022[2]



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 Shared Services Agreement with Avera Health Plans, Inc.
2. A Tax Allocation Agreement with its wholly-owned subsidiary, DAKOTACARE Administrative Services, Inc.

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 5300 Broadband Lane, Sioux Falls, South Dakota, 57108. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

[2] 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.

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

VI. Examination Results

Except as noted in this report, based on the procedures performed, nothing came to our attention that would indicate that the Company's 2020, 2021, and 2022 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2020, 2021, and 2022 MLR Annual Reporting Forms were filed by the due date.

The Company reported that in 2022, it met the MLR standard of 80% in the South Dakota individual market. Therefore, the Company reported that it was not required to pay rebates to its enrollees in this market. The Company reported that in 2022, it did not meet the applicable MLR standard in the South Dakota small group and large group markets, and paid rebates of $1,798,599 in the small group market and $92,899 in the large group market.

Based on the reporting errors found during the examination, the Company's MLRs for the 2022 reporting year were recalculated and resulted in a decrease in the Company's rebate liability by $49,027 in the small group market and $23,701 in the large group market.

A. MLR Data

Market Classification
The Company adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2020-2022 reporting years. The samples of policies tested during the examination were assigned to the correct market classification.

Aggregation
Based upon the procedures performed, nothing came to our attention that would indicate that the samples of policies, claims, and other aggregation-related 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 $155,518 in the individual market, $554,263 in the small group market, and $160,316 in the large group market.

In addition, the Company failed to include in paid claims on Part 2, Line 2.1b, on its 2022 MLR Annual Reporting Form, the amounts it paid for prescription drug claims, and failed to deduct from paid claims the amount of prescription drug rebates received from its PBM for 2022. According to the 2022 MLR Annual Reporting Form Filing Instructions, an issuer must include on Part 2, Line 2.1b the amounts of claims paid that were incurred during the MLR reporting year, paid from January 01 of the MLR reporting year through March 31 of the following year, and must deduct prescription drug rebates from paid claims. As a result of the net effect of these errors, the Company understated its current year incurred claims on its 2022 MLR Annual Reporting Form by $494,281 in the individual market, $1,036,903 in the small group market, and $152,333 in the large group market.

Improper Reporting of Prior Year Incurred Claims
The Company failed to restate its 2020 and 2021 incurred claims on Part 3, Line 1.2, in the PY2 and PY1 columns, on its 2022 MLR Annual Reporting Form. The Company failed to adjust for the development of 2020 and 2021 incurred claims that occurred between 2020 and March 31, 2023. According to the 2022 MLR Annual Reporting Form Filing Instructions, the amount reported on Part 3, Line 1.2, in the PY2 and PY1 columns must include incurred claims restated as of 3/31 of the year following the MLR reporting year. Incurred claims initially reported for 2020 and 2021 should have been restated on Line 1.2 in the prior year columns for all applicable elements of adjusted incurred claims, and should have reflected run-out through March 31, 2023. As a result, the Company overstated the three-year aggregate incurred claims on Part 3, Line 1.2, on its 2022 MLR Annual Reporting Form, by $149,278 in the individual market, and understated its three-year aggregate incurred claims by $318,177 in the small group market and $315,567 in the large group market.

Based upon the procedures performed, which include validating a sample of incurred claims (as defined by §158.140), other than the reporting errors noted above, nothing additional came to our attention that would indicate that the Company did not accurately report incurred claims.

Claims Recovered Through Fraud Reduction Efforts
The Company did not report any recoveries of paid fraudulent claims, which §158.140(b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities (QIA)

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

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

The largest category of QIA expenses reported by the Company was the salaries and related benefits of the employees whose roles and responsibilities included activities that it asserted met the definition of a QIA at §158.150. However, the Company could not provide sufficient time studies of employee activities or otherwise substantiate the salary ratios it used to allocate salaries to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the titles and job descriptions of staff whose salaries were reported as QIA, the 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 were either for job functions that did not qualify as QIA as defined at §158.150, or for which the Company was unable to provide adequate documentation that proved that the activities and their associated costs met the requirements for being QIA. As a result of these errors, the Company overstated its current year QIA expenses on Part 3, Line 1.3, on its 2022 MLR Annual Reporting Form by $24,825 in the individual market, $52,752 in the small group market, and $25,861 in the large group market.

Improper Allocation of QIA Expenses
The Company's methodology for allocating its 2020 and 2021 QIA expenses did not comply with §158.170(b)(1), which requires allocation to be based on generally accepted accounting methods that are expected to yield the most accurate results. In 2020, the Company improperly used the member months reported on Part 1, Line 7.4, 12/31 column, to allocate QIA to its markets, rather than the member months in the 3/31 column. In addition, the Company incorrectly calculated the respective percentage to use to allocate its 2021 QIA expenses to each market. As a result of the examiners' recalculation, utilizing the proper pro-rata proportion of the membership for each market, it was determined that the Company's three-year aggregate QIA expenses on Part 3, Line 1.3, on its 2022 MLR Annual Reporting Form were understated by $14,875 in the individual market and $3,585 in the small group market, and overstated by $18,460 in the large group market.

Failure to Properly Disclose Allocation Methodologies
The Company failed to report the method used to allocate its QIA expenses to each market on its 2022 MLR Annual Reporting Form, as required by §158.170(b). This error did not impact the MLR calculations.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that QIA expenses were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

Earned Premium
Improper Reporting of Earned Premium

The Company improperly excluded from direct premium written on Part 2, Line 1.1, on its 2020, 2021, and 2022 MLR Annual Reporting Forms, the monthly billing fee it charged policyholders as a condition of receiving coverage for the small group grandfathered and transitional plans. According to §158.130(a), and the 2022 MLR Annual Reporting Form Filing Instructions, earned premium includes all monies paid by a policyholder or subscriber as a condition of receiving coverage from the issuer, including any fees or other contributions associated with the health plan. As a result, the Company understated its three-year aggregate earned premium on its 2022 MLR Annual Reporting Form by $127,777 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 earned premium was not properly reported on a direct basis or that the data elements underlying the 2020, 2021, and 2022 premium reported on the Company's 2022 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Improper Reporting of Federal Income Taxes

Due to multiple calculation and reporting errors, the Company improperly reported federal income taxes on Part 1, Line 3.1a, on its 2021 and 2022 MLR Annual Reporting Forms. According to information obtained from the Company, the amounts reported for federal income taxes for 2021 and 2022 related to deferred taxes, which would be recognized in future years. According to the 2022 MLR Annual Reporting Form Filing Instructions, only federal income taxes attributed to the MLR reporting year should be reported on Part 1, Line 3.1a. As a result of the net effect of these errors, the Company overstated the three-year aggregate taxes and licensing and regulatory fees on Part 3, Line 2.2, on its 2022 MLR Annual Reporting Form, by $102,385 in the individual market, $395,263 in the small group market, and $38,679 in the large group market.

Failure to Disclose Allocation Methodologies

The Company failed to report the methods used to allocate its PCORI fees, state premium taxes, and other federal and state regulatory authority licenses and fees on its 2020, 2021, and 2022 MLR Annual Reporting Forms, as required by §158.170(b). This error did not impact the MLR calculations.

Based upon the procedures performed, other than the reporting errors noted above, nothing additional came to our attention that would indicate that 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, and in accordance with its federal tax allocation agreement.

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 2021 MLR Annual Reporting Form, the HHS-RADV adjustment amount for the

2017 benefit year. According to the 2022 MLR Annual Reporting Form Filing Instructions, federal risk adjustment program net receipts or charges should include adjustments for the 2017 RADV benefit year. As a result, the Company overstated its three year-aggregate risk adjustment transfer amounts on its 2022 MLR Annual Reporting Form by $8,237 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.

The Company reported that in 2022, it did not meet the applicable MLR standards in the small group and large group markets. The Company used the correct procedures to calculate rebates of $1,798,599 in the small group market and $92,899 in the large group market. As detailed in this report, the examination identified errors in the data underlying the Company's MLR and rebate calculations, resulting in changes to the Company's 2022 MLRs and rebate amounts.

C. Rebate Disbursement and Notice

Improper Reporting of Prior Year Unclaimed Rebates
The Company failed to report the prior year unclaimed rebates on Part 4, Line 4.g, on its 2022 MLR Annual Reporting Form. According to the 2022 MLR Annual Reporting Form Filing Instructions, the amount of unclaimed rebates from all prior MLR reporting years should be reported on Part 4, Line 4.g. This error did not impact the MLR calculations.

Lack of Good Faith Effort to Locate Enrollee for Unclaimed Rebates
The Company adopted policies and procedures for locating and delivering rebates that do not comply with §158.244. Section 158.244 requires an issuer to make a good faith effort to locate and deliver unclaimed rebates to enrollees. The Company's process does not include any follow-up with enrollees whose unclaimed rebates were less than $50. This error did not impact the MLR calculations.

According to its 2022 MLR Annual Reporting Form, the Company reported that it owed rebates in the small group and large group markets. Based on the procedures performed, the Company timely issued rebates in accordance with §§158.240-243, and Rebate Notices in accordance with §158.250, but as noted above, did not comply with §158.244.

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, Division of Insurance, performed a financial examination of the Company in 2022 covering the period January 1, 2017 through December 31, 2021. The financial examination resulted in one finding, which did not impact the Company's federal MLR calculations 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 South Dakota State Medical Holding Company, Inc.'s 2022 MLR Annual Reporting Form to assess the Company's compliance with the requirements of 45 CFR Part 158. The examination involved determining the validity and accuracy of the data elements and calculated amounts reported on the 2022 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed herein, 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 overpaid rebates by $49,027 in the small group market and $23,701 in the large group market.

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

Corrective Action #1
The Company must adopt and implement 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 amounts paid to its PBM in excess of the cost of prescription drugs paid to pharmacies for its enrollees are not included in incurred claims.

Company Response
The Company acknowledges this finding and has adjusted its process to ensure administrative costs are not included in incurred claims in accordance with §158.140.

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

Corrective Action #2
The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with §158.110 and the applicable MLR Annual Reporting Form Filing Instructions, including properly reporting: prescription drug claims and deducting prescription drug rebates from them; prior year adjusted incurred claims; federal income taxes; risk adjustment transfer amounts; and prior year unclaimed rebates.

Company Response
The Company acknowledges this finding and has adjusted its processes in the 2023 filing ensuring prescription drug claims, pharmacy rebates, federal income taxes, and risk adjustment transfer amounts for current and prior year incurred claims are included properly in accordance with §158.110.

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

Corrective Action #3
The Company must adopt and implement a comprehensive MLR records maintenance program under which it maintains all documentation and evidence necessary to enable CCIIO to verify compliance with each element in the MLR Annual Reporting Form, as required by §158.502. The records maintenance program should also include creating and retaining documentation, as may be necessary, to enable CCIIO to verify that expenses included in QIA are for activities that meet the definition of QIA. For salary-related expenses classified as QIA, this includes performing time studies of employee activities or other quantitative analyses of salary ratios to support allocating any such amounts to QIA, as only salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities are allowable QIA expenses.

Company Response
The Company acknowledges this finding and has adjusted its processes during the audit beginning with our 2024 filing to ensure all records are maintained for expense verification by CCIIO, in accordance with §158.502. Additionally, the Company continues to work on updating processes and procedures to ensure QIA expenses are analyzed and documented for appropriate record maintenance.

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

Corrective Action #4
The Company must adopt and implement procedures to ensure that any expenses classified as QIA meet the requirements 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 and continually works to ensure processes and procedures are in place to properly evaluate QIA expense qualifications in accordance with §158.150.

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 it properly and accurately allocates QIA expenses in accordance with §158.170.

Company Response
The Company acknowledges this finding and has adjusted its process to properly calculate and allocate its QIA expense to each market in accordance with §158.170 to ensure correct three-year aggregate.

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

Corrective Action #6
The Company must adopt and implement procedures to ensure that it properly and accurately reports earned premium in accordance with §158.130 and the MLR Annual Reporting Form Filing Instructions, including ensuring that monthly billing fees charged that are a condition of receiving coverage are properly included in direct premium written.

Company Response
The Company acknowledges this finding and has adjusted its process during the audit with our 2023 filing to ensure earned premiums are accurately reported in accordance with §158.130.

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 the accurate reporting of the methods used to allocate expenses, including PCORI fees, state premium taxes, and other federal and state regulatory authority licenses and fees, in accordance with §158.170.

Company Response
The Company acknowledges this finding and has adjusted its processes to ensure proper reporting of taxes and regulatory fees in accordance with §158.170.

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 a good faith effort is made to locate and deliver all unclaimed rebates to enrollees in accordance with the requirements of 158.244, regardless of the rebate amount.

Company Response
The Company acknowledges this finding and has adopted procedures to document all attempts to locate and deliver all unclaimed rebates in accordance with §158.244.

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.