Final

Report on the

Medical Loss Ratio Examination

of

Capital Health Plan, Inc.
(Tallahassee, Florida)

for the

2013 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201

CMS
CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR CONSUMER INFORMATION & INSURANCE OVERSIGHT

OVERSIGHT GROUP

July 28, 2016

In accordance with Title 45 of the Code of Federal Regulations (CFR), section 158.402, the Center for Consumer Information and Insurance Oversight (CCIIO) has completed an examination of the Medical Loss Ratio (MLR) Annual Reporting Form submitted by Capital Health Plan, Inc. (the Company) for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, Capital Health Plan, Inc. responded to each finding and recommendation. This final report, which will be made publicly available, incorporates those responses and CCIIO's evaluation of them.

Christina N Whitefield

Christina Whitefield, Acting Director
Medical Loss Ratio Division
Office of Oversight
Center for Consumer Information and Insurance Oversight
Centers for Medicare & Medicaid Services
US Department of Health and Human Services

Table of Contents

I. Executive Summary

The Center for Consumer Information and Insurance Oversight (CCIIO) has performed an examination of the 2013 Medical Loss Ratio (MLR) Annual Reporting Form for Capital Health Plan, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2013 MLR Annual Reporting Form contains some elements that are not fully compliant with the requirements of 45 CFR Part 158. Due to the lack of accurate documentation supporting group size and market classification determinations, we cannot conclusively assess the impact of this examination finding on the Company's MLRs or whether there would be any impact on its rebate liability in any of the markets in which it operates. We recommend that the Company implement corrective actions to comply with various sections of 45 CFR Part 158, including obtaining accurate information to determine group size and market classification of policies, properly determining the market classification of policies, properly reporting incurred claims and earned premiums on a direct basis, and ensuring that expenses for quality improvement activities meet the regulatory definition and are adequately supported with sufficient documentation.

II. Scope of Examination

CCIIO examined the Company's 2013 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. 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 Affordable Care Act, generally requires health insurance companies to submit to the Secretary an annual report on their MLRs. The MLR is the proportion of premium revenue expended by a company on clinical services and activities that improve health care quality in a given state and market. Section 2718 also requires a company to provide rebates to consumers if it does not meet the 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, 2011 through December 31, 2013, including 2011 and 2012 experience and claims run-out through March 31, 2014. 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 and Summary of Recommendations section of this Report. The Company's corrective action was not reviewed for proof of implementation or subjected to any procedures applied during the examination. CCIIO's response is 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 for each finding and proposed action plan in future MLR Annual Reporting Forms, examinations or as otherwise may be appropriate.

III. Summary of Key Findings

Page	Summary of Key Findings
6	**Failure to employ standards consistent with the requirements of 45 CFR 158.220 in assigning correct market classifications to its policies –** The Company did not obtain from its group policyholders the average number of employees on the business days of the calendar year preceding the coverage effective date and therefore may not have correctly determined each group policyholder's size or market classification in accordance with the definitions at Section 2791(e) of the PHS Act. Incorrect market classification resulted in misallocation of the Company's claim, premium, and life-year experience between the small group and large group markets for one group policy from the sample population tested.
7	**Failure to report incurred claims as required by 45 CFR 158.140(a) –** The Company did not report incurred claims on a direct basis, but rather reduced claims by the amount of reinsurance ceded.
8	**Reporting of quality improvement activities (QIA) that did not meet the definition of a QIA expense as set forth in 45 CFR 158.150 –** The Company did not maintain sufficient documentation to support its allocation of various salary expenses reported as QIA and inappropriately allocated to the small group and large group markets a portion of the cost of administering a Medicare-related survey.
9	**Failure to report premium revenue as required by 45 CFR 158.130(a)(1)** – The Company did not report premiums on a direct basis as required, but rather, reduced premium by the amount of reinsurance ceded on its 2011, 2012 and 2013 MLR Annual Reporting Forms[1].

These findings resulted in a net increase of the Company's reported MLR for the small group market by 0.1% and no change in the MLR for the large group market for the 2013 reporting year, but due to the lack of accurate documentation supporting group size and market classification determinations, we cannot, at this time, conclusively assess whether there were errors that had an additional impact on the Company's MLR in the small group and large group markets. The three-year adjusted, aggregated numerator and denominator, along with the resulting credibility-adjusted MLR for the 2013 reporting year, are shown in the following table. The amounts in the "As Recalculated" row reflect the adjustments made to incurred claims and premiums due to those amounts being incorrectly reported net of reinsurance, reclassification of one policy due to incorrect market classification, and disallowed QIA expenses.

[1] Although the Examination is of the Company's 2013 MLR Annual Reporting Form and the 2011 and 2012 data on that form, if an error is discovered during an Examination, then where circumstances warrant it, the Company's actual two prior years' reporting forms are reviewed.

Recalculated Small Group and Large Group Market MLRs for the 2013 Reporting Year

	Small Group Market			Large Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	$171,376,687	$194,385,328	89.5%	$1,198,912,900	$1,253,839,713	95.6%
As Recalculated	$171,395,115	$194,128,327	89.6%	$1,201,535,306	$1,256,747,264	95.6%
Difference	$18,428	$(257,001)	0.1%	$2,622,406	$2,907,551	0.0%

The recalculated amounts did not impact the Company's rebate liability for the 2013 reporting year as the recalculated MLRs for both the small group and large group markets were above the MLR standard of 80% and 85%, respectively.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit, federally qualified and state licensed staff model Health Maintenance Organization ("HMO") domiciled in Florida. The Company sells health insurance coverage in service areas consisting of Leon and surrounding counties in Florida.

During the 2011, 2012 and 2013 MLR reporting years, the Company operated in the small group and large group markets that were subject to the MLR reporting requirements under 45 CFR Part 158. As of December 31, 2013, the Company reported a total of 111,135 covered lives and $485,928,196 in direct earned premium in policies subject to the MLR reporting and rebate requirements and a total of 126,212 covered lives and $638,043,217 in direct earned premium from all health lines of business. The only line of business not subject to the MLR regulations at 45 CFR Part 158 is Medicare Advantage.

To the best of our knowledge, the Company is not currently under either financial or market conduct sanctions by the state regulatory agency in any state in which it does business.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2013 were:

Officers

Name	Title
Wallace K. Boutwell Jr.	Chairman
John Hogan	CEO
Sabin Bass	CFO
Thomas A. Barron	Secretary
David K. Coburn	Treasurer
Winifred Schmeling	Vice Chairman

Directors

Name
Dubose Ausley
Lillie Bogan
Patricia Hayward
John T. Herndon
Joyce Kramzer
Isaac Moore, MD
James B. Sheedy, MD

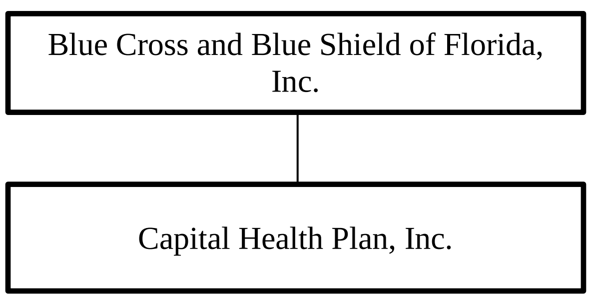
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form are:

Name	**Title**
John Hogan	CEO Attester
Sabin Bass	CFO Attester

C. Ownership

Blue Cross and Blue Shield of Florida, Inc. has an affiliation agreement that gives it a 51% majority control of the corporate membership of the Company.

Blue Cross and Blue Shield of Florida, Inc.
Organizational Chart
December 31, 2013



D. Agreements

As of December 31, 2013, the Company had entered into the following inter-company agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. An Affiliation and Administrative Agreement governing the relationship between Blue Cross and Blue Shield of Florida, Inc.'s and Capital Health Plan, Inc. regarding, amongst other things, the latter's use of the former's name and control of the Company's corporate membership.

2. An Accounting Agreement with Blue Cross and Blue Shield of Florida, Inc. regarding shared services for programs marketed jointly to group purchasers, such as blended rate policies and single-source billing.
3. An Anti-Fraud Investigative Services Agreement with Blue Cross and Blue Shield of Florida, Inc. for Blue Cross Blue Shield of Florida, Inc. to investigate claims by the Company's insureds or by anyone who makes a claim against policyholders.

E. Reinsurance

During 2011, 2012 and 2013, the Company had a reinsurance agreement in place with ACE American Insurance Company for its lines of business. In 2011, the Company also had a reinsurance agreement in place with One Beacon Insurance Company for its lines of business. Neither of these entities is affiliated with the Company. The Company does not have any assumed reinsurance agreements.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 2140 Centerville Place, Tallahassee, FL 32308. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

Except as noted below, the procedures performed did not identify any errors or irregularities in the data reported on the MLR Annual Reporting Form with regard to rebates and the provision of notices for the 2013 reporting year. As noted below, documentation regarding the employee count of group policyholders, which is necessary to determine group size and market classification, is not consistently obtained from the Company's employer group policyholders.

VI. Examination Results

Except as noted in this report, the Company's 2011, 2012 and 2013 MLR Annual Reporting Forms were filed on the form and in the manner prescribed by the Secretary by or before the required due date.

During all three years under Examination, the Company 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.

A. MLR Data

Market Classification Policies and Procedures

Incorrect Procedures for Determining Group Size and Market Classification
The Company has adopted policies and procedures for determining group size and market classification that are inconsistent with the requirements of §158.220, which stipulates that an issuer's MLR must be calculated separately for the large group market, small group market and individual market within each state.

The Company did not obtain the necessary information to support its group size and market classification determinations for the period covered in this examination. The information provided by the Company during the examination indicates that it is not consistently applying the correct criteria to determine a policyholder's group size and market classification. For policies with 2011, 2012 and 2013 effective dates, the Company incorrectly based the group size, and consequently the market classification, of its policies on the number of *eligible* employees of the group policyholder at the time of the initial application or policy renewal. Section 158.103 employs the definition of Large Employer, Large Group Market, Small Employer and Small Group Market in section 2791 (e) of the Public Health Service Act (PHS Act). Section 2791 (e) of the PHS Act requires that the 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*. As described above, the Company did not obtain information regarding the average number of total employees for the calendar year preceding the effective date of coverage, and therefore was not able to accurately determine group size and market classification in accordance with §158.220 and the definitions at §158.103.

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 the information necessary to support its determinations.

Reporting based on Market Classification

Incorrect Determination of Group Size and Market Classification
In addition to not employing procedures to correctly determine the 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 available to the Company. Based on testing of the Company's market classification of its policies, one policy in the sample was incorrectly classified by the Company as a small group policy, when, based on the information available and the Company's group size determination processes, the policy should have been reported in the large group market as both the total number of employees and the number of eligible employees at the time of the initial application and at policy renewal were greater than 50. As a result of this finding, the 2011, 2012, and 2013 claims and premiums for this policy were reallocated from the small group market to the large group market, as shown in the following table:

	2011	**2012**	**2013**	**Total**
Incurred Claims				
Small Group Market	($96,196)	($95,467)	($138,350)	($326,013)
Large Group Market	$96,196	$95,467	$138,350	$326,013
Earned Premium				
Small Group Market	($214,479)	($200,857)	($188,816)	($604,152)
Large Group Market	$214,479	$200,857	$188,816	$604,152

Although the Company employed standards that were inconsistent with the requirements in §158.220, based on the unique circumstances for each policy, it appears that the majority of policies tested during the examination were assigned to the correct market classification. Therefore, the impact of this error on the Company's final MLRs for the small group and large group markets was deemed to be immaterial.

Aggregation

Other than the incorrect group size and market classification determinations noted above, the samples of policies, claims and other items tested during the examination were correctly assigned to the appropriate states, markets, and lines of business in accordance with §158.120.

Incurred Claims

Improper Reporting of Ceded Reinsurance

In addition to any impact resulting from the incorrect group size and market classification determinations noted above, the Company improperly reduced the incurred claims it reported on its MLR Annual Reporting Form by the amount of incurred claims ceded to reinsurers. In accordance with §158.140(a) and the 2013 MLR Annual Reporting Form Filing Instructions, incurred claims should be reported on a direct basis. The amount of understatement of the Company's adjusted incurred claims that resulted from improperly deducting claims ceded to reinsurers is as follows:

	2011	**2012**	**2013**	**Total**
Small Group Market	$128,517	$129,550	$89,084	$347,151
Large Group Market	$870,420	$797,040	$635,939	$2,303,399

Claims Recovered Through Fraud Reduction Efforts

The Company did not report any recoveries of fraudulent claims payments, which §158.140(b) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

The majority of the Company's QIA programs and related expenses are the responsibility of three departments – Care Coordination, Health Improvement, and Quality Improvement. The Company allocated 95.84% of the total expenses of the Care Coordination department and 100% of the total expenses of the other two departments to QIA. Some of the programs and expenses for quality improvement activities that the Company reported did not meet the definition of a QIA in accordance with §158.150.

Incomplete Documentation of Salary Reporting for QIA

We note that the largest category of QIA expenses for each of the three departments was the salaries of the employees whose roles and responsibilities included activities that are part of quality improvement programs that did meet the definition at §158.150. However, the Company could not provide any time studies of employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA. Accordingly, alternative testing procedures were employed, which included reviewing the title description, job description, allocation percentages and other information related to employees whose salaries were included as QIA expenses. Based on the alternative procedures performed, we determined that certain activities in the job descriptions provided by the Company did not meet the definition at §158.150. For example, activities such as establishing rates for hospital services, resolving issues regarding pending claims, facilitating and documenting appeal decisions, and certain portions of activities associated with utilization management are not allowable QIA expenses. We were unable to determine the portion of direct salary expenses that was attributable to activities that do meet the definition of QIA due to the lack of a formal quantitative analysis of the activities and time spent by staff on these activities. However, we determined that no amount of reduction in the aggregate QIA expenses reported by the Company for the 2011, 2012 and 2013 reporting years would impact its MLR to the extent that it would result in a rebate liability.

QIA Reported Under Incorrect Line of Business
The Company's 2013 MLR Annual Reporting Form included Medicare-related QIA expenses that were improperly allocated to the small group and large group health insurance coverage markets, which is not compliant with 45 CFR 158.150. According to §158.150(c)(2), QIA expenditures reported for a particular line of business must only include the (pro rata share of) expenses for that line of business. However, instead of reporting the entire $12,835 cost of its "Medicare Outcomes Survey" of the Company's Medicare Advantage enrollees as QIA expense attributable to the "Government Business" line of business (which includes Medicare coverage), the Company reported only 24.3% of this expense as "Government Business." The Company allocated the other 75.7% of the survey cost to the health insurance coverage markets as follows: $2,710 to the small group market and $7,006 to the large group market.

Based on substantive testing, all other QIA expenses were accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

Earned Premium
In addition to any impact resulting from the incorrect group size and market classification determinations noted above, the Company improperly reduced the premium revenue it reports on its 2013, 2012 and 2011 MLR Annual Reporting Forms by the amount of earned premium ceded to reinsurers and it did so by the incorrect amount. In accordance with §158.130(a)(1) and the 2013 MLR Annual Reporting Form Filing Instructions, earned premium should be reported on a direct basis. The amount of understatement of the Company's earned premiums that resulted from improperly deducting premiums ceded to reinsurers over the three-year period was $347,151 in the small group market and $2,303,399 in the large group market, the same amount by which the Company understated its incurred claims.

Taxes
Other than the incorrect group size and market classification determinations noted above, based on substantive testing, the taxes and regulatory fees excluded from 2011, 2012 and 2013 earned premium on the Company's 2013 MLR Annual Reporting Form complied with §158.161 and §158.162. Also based on substantive testing, taxes and regulatory fees were accurately reported and were reasonably allocated among the Company's states and markets, as required by §158.170. The Company is exempt from federal income taxes under Internal Revenue Code Section 501(c)(4).

B. Credibility-Adjusted MLR and Rebate Amount

Based on substantive testing, the Company correctly applied the credibility adjustment when the Company calculated and reported its MLRs, in accordance with §158.221. The company's final, credibility-adjusted MLRs were calculated correctly in accordance with 45 CFR Part 158 and applicable MLR Annual Reporting Form Filing Instructions. Because the Company's final MLRs exceeded the applicable standards in both small group and large group markets, no rebates were due for 2011, 2012 or 2013.

C. Rebate Disbursement and Notice

According to its 2011, 2012 and 2013 MLR Annual Reporting Forms, the Company did not owe any rebates as a result of the MLR calculations. Based on substantive testing, the Company timely issued the 2011 Notice (of no rebate) in accordance with 45 CFR §158.251 and was not required to (and did not) issue any Notices for the 2012 or 2013 reporting years. However, due to the possibly incorrect group size and market classification determinations, we cannot conclusively assess at this time whether the Company was required to pay any rebates or issue any Notice of rebate in the small group or large group markets.

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 Florida Office of Insurance Regulation performed a financial examination of the Company in 2011, covering the period January 1, 2008 through December 31, 2010. The financial examination resulted in three findings, none of which appear to impact the Company's federal MLR calculation or reporting.

VII. Impact of Findings

Because of the possibly incorrect group size and market classification determinations noted above, we cannot conclusively assess the impact of these examination findings on the Company's MLR or whether there would be any impact on the Company's rebate liability in any of the markets in which it operates for the timeframe of this examination.

VIII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2013 MLR Annual Reporting Form. No post-December 31, 2013 significant events were brought to CCIIO's attention.

IX. Conclusion and Recommendations

CCIIO has examined Capital Health Plan, Inc.'s 2013 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 2013 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. The Company's 2013 MLR Annual Reporting Form did not comply with some of the requirements of 45 CFR Part 158.

The effect of the QIA expense reporting finding and the findings related to failure to report premium and claims on a direct basis, and the resultant recalculation of the Company's MLR did not result in any substantive change to its reported MLR for any of the markets in which it operates. Therefore, these findings did not have an impact on the Company's rebate liability in any of the markets in which it operates. However, as noted above, because of the lack of accurate documentation supporting the Company's group size and market classification determinations, we cannot conclusively assess the impact of this examination finding on the Company's MLR or whether there would be any impact on the Company's rebate liability in any of the markets in which it operates.

As a result of this examination, CCIIO recommended the following:

Recommendation #1

The Company should 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, as defined by section 2791 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 related to the average number of employees for the calendar year preceding the coverage effective (or renewal) date. The Company should utilize this information to properly determine the market classification of its policies, in accordance with the requirements of §158.220(a).

Company Response

"The Company has implemented procedures to ensure it obtains and maintains accurate information and documentation to determine the correct group size and market classification of its group as defined by section 2791 of the PHS Act and the applicable requirements of 48 CFR Part 158 and related guidance.

In addition, the Company conducted additional analysis on market classification for the years covered by the audit examination and determined the overall impact of the related findings observed in the sample was immaterial to the Company's reported MLR calculations of 89.5% and 95.6% for small group and large group, respectively."

CCIIO Reply

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

Recommendation #2

The Company should report incurred claims and earned premiums on a direct basis, without taking into account the effect of ceded reinsurance transactions, in accordance with §158.140(a) and §158.130(a)(1), respectively.

Company Response

"The Company had implemented the recommendation in the Experience Year (EY) of its 2014 MLR Annual Reporting Form filing in the applicable PY l and PY2 columns. The EY2013 adjustments reported in EY2014 filing will be carried forward to the EY2015 filings in the PY2 column per the MLR form filing instructions."

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

Recommendation #3
The Company should implement internal controls to ensure that any expenses classified as QIA meet the requirements of §158.150 and that sufficient documentation exists to support such determinations. For salary-related expenses classified as QIA, the Company should perform time studies of employee activities and/or other quantitative analyses of salary ratios to support allocating any such amounts to QIA. Only salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities should be considered as allowable QIA expenses. Finally, the Company should take steps to ensure that it includes QIA (and any other category of) expenses for a particular line of business only to the extent the expenses are attributable to that line of business.

Company Response
"The Company has implemented additional controls and processes to ensure expenses classified as QIA meet the requirements of §158.150 and improved the documentation to sufficiently support related salary and related expense classified as QIA. The changes include addressing the classification of expenses related to a particular line of business have been included within the applicable line of business."

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

Recommendation #4
The Company should re-file its 2013 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. In the alternative, the Company should rectify the errors to reflect the findings stated herein in its 2015 MLR Annual Reporting Form. The Company should make the corrections in the prior year column of its 2015 MLR Annual Reporting Form (Part 3, Column PY2). Additionally, the Company should upload supplemental documentation with their 2015 MLR Annual Reporting Form noting that the discrepancy between the data reported on the 2013 MLR Annual Reporting Form and the corresponding prior year data reported on the 2015 MLR Annual Reporting Form resulted from CCIIO's examination findings.

Company Response
"The Company will reflect the recommendations, stated in the MLR Examination Report, in the prior year column of its 2015 MLR Annual Reporting Form and will upload supplemental documentation noting the differences between the 2013 reports and the corresponding prior year date on the 2015 MLR Annual Reporting Form."

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

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