

Final
Report on the
Medical Loss Ratio Examination
of
Blue Cross Blue Shield of Arizona, Inc.
(Phoenix, Arizona)
for the
2013 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

October 30, 2020

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 Blue Cross Blue Shield of Arizona, Inc. (the Company) for the 2013 reporting year, including 2013, 2012, and 2011 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 2013 Medical Loss Ratio (MLR) Annual Reporting Form for Blue Cross Blue Shield of Arizona, 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 compliant with the requirements of 45 CFR Part 158, but that do not impact consumer rebates. We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including properly reporting the experience of stand-alone vision policies, accurately reporting incurred claims, and ensuring that quality improvement activity (QIA) expenses meet the regulatory definition of QIA.

The examination findings and subsequent recalculation of the Company's 2013 MLRs resulted in a net decrease of 0.1 percentage points in the individual market and 0.6 percentage points in the large group market. The findings did not result in a change in the Company's reported 2013 MLRs for the small group and individual mini-med markets. As the recalculated MLRs continue to exceed the applicable MLR standards, the findings did not result in additional rebates owed in any of the markets in the one state in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect.

II. Scope of Examination

CCIIO examined the Company's 2013 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 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, 2012, and 2013 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 corrective action appears after it 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

Page	Key Findings
6	Failure to correctly report incurred claims, as required by §158.140 – The Company erroneously reported 2011 incurred claims of one self-funded plan in the large group market due to an accounting error caused by system limitations. As a result, the Company overstated its three-year aggregate incurred claims in the large group market by \$14,881,182 on its 2013 MLR Annual Reporting Form.
6	Failure to aggregate data for policies not subject to the MLR requirements separately, as required by §158.120(a) and the MLR Reporting Form Instructions – The Company incorrectly reported the experience of stand-alone vision policies with its large group market health insurance coverage subject to 45 CFR Part 158, instead of reporting it separately as Other Health. As a result, the Company overstated its three-year aggregate large group market incurred claims by \$3,630,197 and earned premium by \$4,861,412 on its 2013 MLR Reporting Form.
7	Reporting of expenses as QIA that did not meet the definition of a QIA set forth in §158.150 – The Company improperly included expenses related to concurrent utilization review in its QIA expenses on its 2013 MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate QIA expenses by \$323,347 in the individual market, \$153,324 in the small group market, \$712,571 in the large group market, and \$482 in the individual mini-med market.

These findings resulted in a net decrease of the Company’s reported MLR of 0.1 percentage points in the individual market and 0.6 percentage points in the large group market. The findings did not result in a change in the Company’s reported MLRs for the small group and individual mini-med markets.

The three-year adjusted, aggregated numerator and denominator, credibility-adjusted MLR, and rebate for 2013 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 remove

the claims of a self-funded health plan, the experience of stand-alone vision policies, and the disallowed QIA expenses.

Recalculated MLRs and Rebates for the Individual, Small Group, Large Group, and Individual Mini-Med Markets for the 2013 Reporting Year

Arizona

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$862,511,779	\$1,054,779,599	81.8%	\$0
As Recalculated	\$862,188,432	\$1,054,779,599	81.7%	\$0
Difference	(\$323,347)	\$0	(0.1%)	\$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$480,037,712	\$610,841,146	78.6%	\$2,752,922
As Recalculated	\$479,884,388	\$610,841,146	78.6%	\$2,752,922
Difference	(\$153,324)	\$0	0%	\$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$2,174,274,348	\$2,435,634,580	89.3%	\$0
As Recalculated	\$2,155,050,399	\$2,430,773,168	88.7%	\$0
Difference	(\$19,223,949)	(\$4,861,412)	(0.6%)	\$0

	Individual Mini-Med Market			
	Numerator	Denominator	MLR	Rebate
As Filed	\$5,078,381	\$3,455,430	80%	\$0
As Recalculated	\$5,077,899	\$3,455,430	80%	\$0
Difference	(\$482)	\$0	0%	\$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit hospital, medical and dental service corporation domiciled in the state of Arizona. The Company sells both individual and group health insurance, and provides administrative services to self-funded employee benefit plans.

During the 2011, 2012, and 2013 MLR reporting years, the Company operated in the individual, small group, large group, and individual mini-med markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2013, the Company reported a total of 369,582 covered lives and \$1,425,269,158 in direct earned premium from policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158 and a total of

561,695 covered lives and \$1,531,990,191 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 policies, stop loss insurance, and stand-alone vision and dental insurance.

B. Management

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

Officers

<u>Name</u>	<u>Title</u>
Richard L. Boals	President & CEO
Rebecca L. Burnham	Secretary
Sandra L. Gibson	Executive Vice President, Internal Operations
Susan H. Navran	Executive Vice President, External Operations

Directors

<u>Name</u>	
Richard L. Boal	Harry A. Papp
Robert B. Bulla	James S. Pignatelli
Rebecca L. Burnham	William J. Post
Danny C. Coleman	Barbara J. Ralston
Lattie F. Coor	Thomas C. Rothe
Richard H. Dozer	Gary L. Trujillo
Kathleen H. Goepfinger	Alton J. Washington
Kay J. McKay	

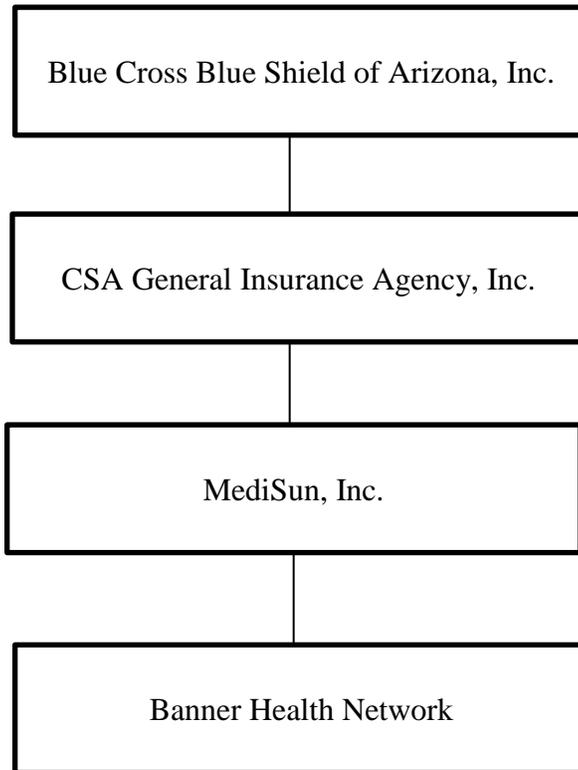
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2013 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
Richard Boals	CEO Attester
Karen Abraham	CFO Attester

C. Ownership

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

**Blue Cross Blue Shield of Arizona, Inc.
Organizational Chart¹ as of 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 2013 MLR Annual Reporting Form:

1. A Services Agreement with CSA General Insurance Agency, Inc.
2. A Master Services Agreement with MediSun, Inc.
3. A Provider Network Agreement with Banner Health Network.

E. Reinsurance

During 2011, 2012, and 2013, 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

¹ This is an excerpt from an organization chart provided by the Company and only includes companies pertinent to the MLR examination.

The Company's main administrative and financial reporting office is located at 2444 W. Las Palmaritas Drive, Phoenix, Arizona 85021. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

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 2011, 2012, and 2013 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were filed by the due date.

The Company reported that it met the MLR standard of 80% for the individual market for 2012 and 2013, and the MLR standard of 80% for the individual mini-med market and 85% for the large group market for 2011, 2012, and 2013, and thus was not required to pay rebates to its enrollees in these markets for these years. For all three years under examination, the Company reported that it did not meet the MLR standard of 80% in the small group market, and was required to and did pay rebates of \$4,318,560 for 2011, \$2,261,658 for 2012, and \$2,752,922 for 2013. In addition, the Company reported that it did not meet the MLR standard of 80% in the individual market for 2011 and was required to and did pay rebates of \$7,097,415.

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 2011-2013 reporting years. Other than the aggregation error noted below, nothing additional came to our attention that would indicate that the samples of policies tested during the examination were not assigned to the correct market classification.

Aggregation

Based on substantive testing, the Company incorrectly reported the experience from stand-alone vision group policies with its large group health insurance coverage experience subject to 45 CFR Part 158, rather than in the Other Health columns on the 2011, 2012, and 2013 MLR Annual Reporting Forms. As stand-alone vision policies are excepted benefits under section 2791(c)(2) of the PHS Act, they are not subject to 45 CFR Part 158. The MLR Annual Reporting Form Filing Instructions direct issuers to report such coverage as Other Health on the MLR Annual Reporting Form. Consequently, \$3,630,197 in incurred claims and \$4,861,412 in earned premium for 2011-2013 were reallocated from the large group market to the Other Health column of the 2013 MLR Annual Reporting Form.

Other than the incorrect reporting of stand-alone vision policies noted above, based upon the 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 markets and lines of business, in accordance with §158.120.

Incurred Claims

Although it employed procedures to correctly determine the market classification of its policies, the Company incorrectly reported the claims experience for one policy from a sample of 66 policies in the large group market rather than in the Uninsured Plans column on its 2011 MLR Annual Reporting Form. The claims were associated with the Company's own self-funded health plan for its employees and were misreported in 2011 due to an accounting error as a result of system limitations. According to the Company, the 2012 and 2013 claims for this self-funded plan were correctly reported in the Uninsured Plans columns of the 2012 and 2013 MLR Annual Reporting Forms. Consequently, \$14,881,182 in 2011 incurred claims were removed from the PY2 column of the large group market on the 2013 MLR Annual Reporting Form.

Other than the reporting error noted above, based upon the procedures performed, including the validation of a sample of the incurred claims (as defined by §158.140) reported by the Company, nothing additional came to our attention that would indicate that 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 (QIA)

Improper Inclusion of Expenses for Activities Not Qualified as QIA

The Company improperly included on its 2013 MLR Annual Reporting Form expenses related to concurrent utilization review as QIA, which §158.150(c)(7) requires to be excluded from QIA. The amount of expenses improperly included in the three-year aggregate QIA totaled \$323,347 in the individual market, \$153,324 in the small group market, \$712,571 in the large group market, and \$482 in the individual mini-med market.

Based upon the procedures performed, other than the QIA reporting error noted above, nothing 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

Other than the aggregation error noted above, based on 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 2011, 2012, and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were not compliant with §158.130.

Taxes

Based upon the procedures performed, nothing came to our attention that would indicate that the taxes and regulatory fees excluded from 2011, 2012, and 2013 earned premium reported on the Company's 2013 MLR Annual Reporting Form did not comply with §158.161 and §158.162, or were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170. On its 2013 MLR Annual Reporting Form, the Company reported that it allocated its federal income taxes to each market by applying its effective tax rate to the statutory basis underwriting gain for each market, which the examination confirmed.

B. Credibility-Adjusted MLR and Rebate 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. Based on the Company's reported final MLRs, which exceeded the applicable standards in the individual mini-med and large group markets for 2011, 2012, and 2013 and the individual market for 2012 and 2013, the Company used correct procedures to determine that no rebates were due for those years in those markets. The Company reported that it did not meet the MLR standard of 80% in the individual market for 2011 and the small group market for 2011, 2012, and 2013 and was required to and did pay rebates for those years in those markets.

C. Rebate Disbursement and Notice

According to its 2011, 2012, and 2013 MLR Annual Reporting Forms, the Company owed rebates in the small group market and, for 2011 only, in the individual market. Based upon the procedures performed, the Company timely issued rebates and notices in accordance with §§158.240-250 and timely issued the 2011 Notice (of no rebate) in the individual mini-med and large group markets in accordance with §158.251.

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 Arizona Department of Insurance performed a financial examination of the Company in 2013 covering the period January 1, 2008 through December 31, 2012. There were no findings noted in the examination report.

VII. 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.

VIII. Conclusion, Corrective Actions, Company Responses, and CCIIO

Replies

CCIIO examined Blue Cross Blue Shield of Arizona'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 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2013 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. The effect of the examination findings and resultant recalculation of the Company's MLRs did not result in any additional rebates owed in any of the markets in which it operated.

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 all amounts are properly and accurately reported on the MLR Annual Reporting Form in accordance with applicable MLR Annual Reporting Form Filing Instructions, including reporting of experience from health coverage not subject to 45 CFR Part 158 in the Other Health Business column, and ensuring that incurred claims of self-funded plans are accurately reported in the Uninsured Plans column.

Company Response

"One self-insured group (our employees) and our stand-alone vision coverage were both incorrectly coded in our reporting systems. Both have been corrected."

CCIIO Reply

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

Corrective Action #2

The Company must adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150.

Company Response

"Effective with our 2015 HHS MLR filing, BCBSAZ reviewed its procedures and activities to confirm that QIA activities are accurately reported."

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.