

Final
Report on the
Medical Loss Ratio Examination
of
Blue Cross Blue Shield of Florida, Inc.
(Jacksonville, 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



OVERSIGHT GROUP

April 4, 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 Blue Cross and Blue Shield of Florida, Inc. for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, Blue Cross and Blue Shield of Florida, Inc. (the Company) responded to each finding and recommendation. This final report, which will be made publicly available, incorporates those responses and CCIIO's evaluation of them.

A handwritten signature in blue ink that reads 'Christina A. Whitefield'.

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

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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 Blue Cross and Blue Shield of Florida, 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 and which impact consumer rebates. We recommend that the Company implement corrective actions to comply with 45 CFR Part 158, including properly determining the market classification of group policies.

The examination findings and resultant recalculation of the Company's MLR did not result in any change to its reported MLR for any of the markets in which it operates. As the recalculated MLR exceeded the MLR standard of 80% in the individual market and the MLR standard of 85% in the large group market, there was no impact on the Company's rebate liability in these markets. However, the Company reported a three-year aggregate MLR of 79.0% in the small group market for the 2013 reporting year, 1.0% below the standard of 80% for this market. While, as a result of the examination adjustments, the small group market MLR has not changed, the 2013 earned premium for this market was increased by \$432,224, resulting in an additional rebate liability for the 2013 reporting year due in the small group market of \$4,322, or 1.0% of \$432,224.

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, MLR 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
8	Failure to employ standards consistent with the requirements of 45 CFR 158.220(a) in assigning correct market classifications to its policies – Incorrect market classification resulted in misallocation of the Company’s earned premium, incurred claim and life-year experience between the individual and small group markets on six policies in the sample tested and which were in effect during 2012 and 2013.

These findings did not result in any change to the Company’s reported MLR for the individual, small group, large group, mini-med or student health plan markets for the 2013 reporting year¹. The three-year aggregated numerator and denominator, along with the resulting credibility-adjusted MLR for 2013, are presented in the following table. The amounts noted in the “As Recalculated” row reflect the adjustments made as a result of the incorrect market classification that was discovered in six policies out of the population tested.

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

	Individual Market			Small Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$2,714,540,154	\$3,320,475,082	81.8%	\$2,357,549,472	\$2,985,121,170	79.0%
As Recalculated	\$2,714,146,119	\$3,319,810,401	81.8%	\$2,357,943,507	\$2,985,785,851	79.0%
Difference	(\$394,035)	(\$664,681)	0.0%	\$394,035	\$664,681	0.0%

	Large Group Market			Mini-Med Plans, Individual Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$9,453,294,666	\$10,674,585,787	88.6%	\$26,518,055	\$22,683,843	119.5%
As Recalculated	\$9,453,294,666	\$10,674,585,787	88.6%	\$26,518,055	\$22,683,843	119.5%

¹Unless otherwise noted, hereinafter references to the individual, small group and/or large group market include mini-med and student health plans as well, where applicable. The individual and small group mini-med plans must meet an 80% MLR standard, the large group mini-med plans must meet an 85% MLR standard and student health plans, which are considered individual market policies, must meet an 80% MLR standard.

	Large Group Market			Mini-Med Plans, Individual Market		
Difference	\$0	\$0	0.0%	\$0	\$0	0.0%

	Mini-Med Plans, Small Group Market*			Mini-Med Plans, Large Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$912,935	\$995,704	80.0%	\$2,652,062	\$2,352,496	121.0%
As Recalculated	\$912,935	\$995,704	80.0%	\$2,652,062	\$2,352,496	121.0%
Difference	\$0	\$0	0.0%	\$0	\$0	0.0%

*Non-credible business.

	Student Health Plans (Individual Market)		
	Numerator	Denominator	MLR
As Filed	\$24,700,015	\$28,840,074	87.8%
As Recalculated	\$24,700,015	\$28,840,074	87.8%
Difference	\$0	\$0	0.0%

The recalculated amounts did not impact the Company's individual market rebate liability for the 2013 reporting year as the MLR for the individual market was above the 80% MLR standard. However, the 2013 recalculated premium for the small group market resulted in an additional rebate liability of \$4,322 for the 2013 reporting year.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a not-for-profit mutual insurance company which sells a wide range of health insurance products in Florida, including preferred provider organization (PPO) policies, student health plans, and prior to 2014, mini-med plans in Florida. The company is an independent licensee of the Blue Cross and Blue Shield Association (Association).

During the 2011, 2012 and 2013 MLR reporting years, the Company operated in the individual, small group, and large group markets that were subject to the MLR reporting requirements under 45 Part 158. As of December 31, 2013, the Company reported a total of 1,311,731 covered lives and \$6,015,520,334 in direct earned premium in policies subject to the MLR reporting and rebate requirements and a total of 4,016,106 covered lives and \$7,029,321,353 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 Advantage, Medicare Supplement, Medicare Part D, dental, vision, and stop loss policies as well as administrative services for self-funded group health plans.

To the best of our knowledge, the Company is not currently under either financial or market conduct sanctions by a state regulatory agency in the 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

<u>Name</u>	<u>Title</u>
Patrick J. Geraghty	Chairman of the Board, CEO & President
Charles Divita III	Senior Vice President & CFO
Charles S. Joseph	Senior Vice President, General Counsel & Corporate Secretary
William A. Coats	Vice President, Chief Investment Officer & Treasurer
Robert E. Wall	Vice President & Chief Human Resource Officer
Doug Lynch	Vice President & Chief Actuary

Directors

<u>Name</u>
Patrick J. Geraghty
Tracy A. Leinbach
John B. Ramil
Catherine P. Bessant
Barbara S. Thomas
Steven T. Halverson
Gonzalo F. Valdes-Fauli
Robert M. Beal II
Frank P. Scruggs Jr.
Leerie T. Jenkins Jr.

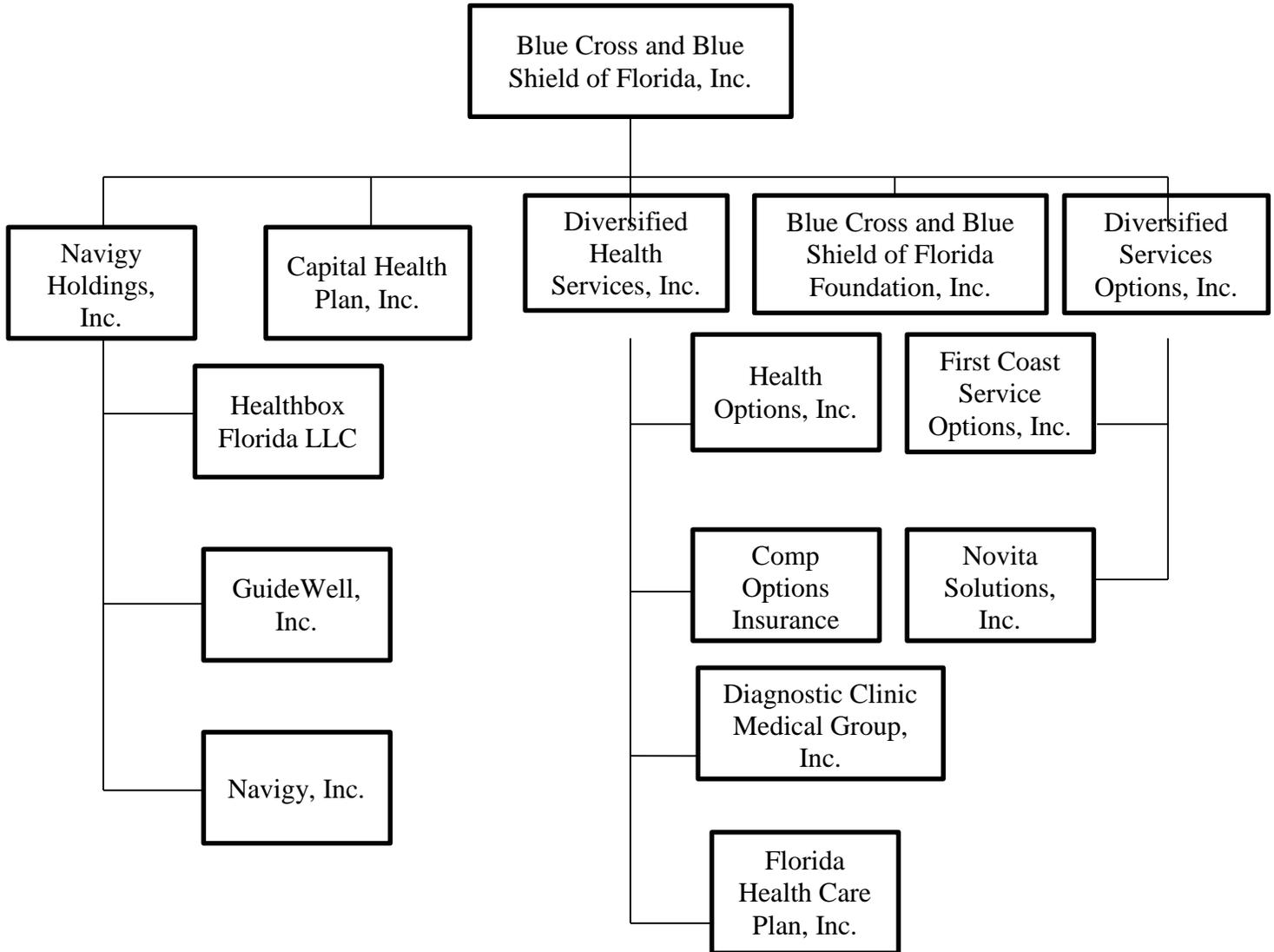
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form are:

<u>Name</u>	<u>Title</u>
Patrick Geraghty	CEO Attester
Charles Divita	CFO Attester

C. Ownership

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

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 intercompany agreements that are pertinent to a review of its MLR Annual Reporting Form:

1. A Tax Allocation Agreement with various subsidiaries including Navigy Holdings, Inc., Diversified Health Services, Inc. and Diversified Service Options, Inc.
2. An Administrative Services Agreement between various subsidiaries including Navigy Holdings, Inc., Diversified Health Services, Inc., Diversified Service Options, Inc., Capital Health Plan, Inc. and Blue Cross and Blue Shield of Florida Foundation, Inc.
3. An Affiliation and Administrative Agreement governing the relationship between the Company and Capital Health Plan, Inc. and the Company's control of Capital Health Plan, Inc.'s corporate membership.
4. An Accounting Agreement with Capital Health Plan, Inc. regarding shared services for joint-venture type programs marketed to group purchasers (e.g. blended rates, single billing, etc.).

E. Reinsurance

During 2011, 2012 and 2013, the Company had a 100% quota share reinsurance agreement in place with Florida Combined Life for the dental portion of an integrated dental/health product. Neither this agreement nor various other assumed and ceded reinsurance agreements have any impact on its health insurance coverage that is subject to the MLR regulation.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 4800 Deerwood Campus Parkway, Jacksonville, FL 32246. 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 policyholders. Therefore, the Company did not consistently have adequate information to properly determine market classifications.

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 individual market and 85% for the large group market, and thus was not required to pay rebates to its enrollees in these markets. Similarly, the Company's mini-med and student health business

met the MLR standard in each reporting year. In 2011 and 2013, the Company did not meet the MLR standard in the small group market, reporting an MLR of 77.3% and 79.0%, respectively, and was required to and did pay rebates of \$27,099,289 and \$10,138,895, respectively. The Company met the MLR standard of 80% in the small group market in 2012.

A. MLR Data

Reporting Based on Market Classification

Incorrect Determination of Group Size

Based on testing how the Company classified a sample of approximately 200 policies, it was determined that the Company incorrectly classified six policies from the sample selected as individual market policies when the records provided indicated that each policyholder was issued a small group policy, as required by Florida law. Therefore, the experience for these policies should have been reported in the small group market, rather than in the individual market. As a result of this incorrect classification and related finding, claims and premiums for the six policies were reclassified from the individual market to the small group market. The following table reflects the revised, aggregate incurred claims and premiums for 2012 and 2013 for the six policies that were reallocated from the individual to the small group market:

	2012	2013	Total
<u>Incurred Claims</u>			
Individual	(\$99,978)	(\$294,057)	(\$394,035)
Small Group	\$99,978	\$294,057	\$394,035
<u>Premiums</u>			
Individual	(\$232,457)	(\$432,224)	(\$664,681)
Small Group	\$232,457	\$432,224	\$664,681

Although the Company employed standards that were inconsistent with the requirements in §158.220, based on the information provided and the unique circumstances of each policy, it was determined that the majority of policies tested during the examination were assigned to the correct market classification. However, the Company does not correctly apply the appropriate criteria when determining market classification. The Company issues surveys to all employer groups with coverage subject to the MLR rule in order to verify that the group’s MLR market classification was accurate. The survey asks whether the employer group did or will issue a W-2 for any work performed during the calendar year to an employee, other than the business owner. If a group policyholder responds with “no,” the Company concludes that the policy belongs to a sole proprietor with no employees and should be reported as an individual policy for MLR reporting purposes even though a small group policy was actually issued. A review of the supporting documentation, including enrollment information, indicated that of all of the small group policies whose experience was reported with the individual market experience, a large number of them had multiple subscribers, many of whom were subcontractors of the business owner who had purchased the policy. Consistent with the Florida law that requires that sole proprietors that insure their independent contractors on the same policy be issued a small group policy, the Company should not have reported the experience for these group policies with their individual market experience on its MLR Annual Reporting Form.

Aggregation

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

Incurred Claims

Other than the incorrect market classification determinations noted above, based upon substantive testing and validation of the incurred claims (as defined by §158.140) reported by the Company, the incurred claims were accurately reported.

Claims Recovered Through Fraud Reduction Efforts

Other than the incorrect market classification determinations noted above, the Company accurately reported recoveries of paid fraudulent claims, which §158.140(b) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

The expenses and programs for quality improvement activities (QIA) identified by the Company met the definition of a QIA in §158.150. Other than the incorrect market classification determinations noted above, based on substantive sample testing, QIA expenses were accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

Earned Premium

Other than the incorrect market classification determinations noted above, based upon substantive testing, earned premium was properly reported on a direct basis and the data elements underlying 2011, 2012 and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were found to be compliant with §158.130.

Taxes

Based upon 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 markets, as required by §158.170 and in accordance with its federal tax allocation agreement with various subsidiaries. In its 2013 MLR Annual Reporting Form, the Company reported that it allocated its federal income and other taxes to each market based on statutory pre-tax income, which the examiner confirmed during the examination.

B. Credibility-Adjusted MLR and Rebate Amount

Based upon 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 the applicable MLR Annual Reporting Form Filing Instructions. Because the Company's final MLRs exceeded the applicable standards in both the individual and large group markets, no rebates

were due for these markets during 2011, 2012 or 2013. The Company did pay rebates for the small group market during 2011 and 2013. While the examination adjustment, which increased the 2013 earned premium for the small group market by \$432,224 and increased the 2013 incurred claims for the small group market by \$294,057, was not large enough to impact the Company's MLR, the adjustment increased the premium base used to calculate rebates. Because the Company reported a 2013 small group market MLR of 79.0%, 1.0% below the standard, the examination adjustment resulted in an increase in the amount of rebates by 1.0% of the additional \$432,224 of premium, or \$4,322.

C. Rebate Disbursement and Notice

According to its MLR Annual Reporting Forms, the Company did not owe any rebates in 2012 for any market in which it operates as a result of the MLR calculations. The Company did owe rebates in the small group market in 2011 and 2013 and based on substantive testing, timely issued rebate notices in accordance with §158.250. Also based on testing, the Company timely issued the 2011 Notice (of no rebate) in the individual and large group markets in accordance with §158.251.

D. Compliance with Previous Recommendations

The Company indicated that neither CCHIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. However, the Florida Office of Insurance Regulation performed a financial examination of the Company in 2012 covering the period January 1, 2007 through December 31, 2011. There were no relevant findings noted in that examination report.

VII. Impact of Findings

The cumulative effect of all errors and findings resulted in \$4,322 in additional rebate liability for the small group market for the 2013 MLR reporting year. The examination findings did not impact MLR rebates in any other markets since recalculating the MLR to correct for the incorrectly reported items did not cause the Company's MLR in these markets to fall below the applicable MLR standard.

VIII. Subsequent Events

Effective January 1, 2014, the operating, legal and ownership structure of the Company and its subsidiaries and affiliates changed. The Company reorganized under a policyholder-owned, not-for-profit mutual insurance holding-company system. The new mutual insurance holding company, GuideWell Mutual Holding Corporation (GuideWell), replaced the Company as the controlling organization and is owned by the policyholders. Under the new structure, the Company became a stock company which is wholly owned by the mutual insurance holding company. As part of the reorganization, assets totaling \$1,600,000,000 on a Statutory Accounting Principles basis, including substantially all of the stock of the subsidiary companies, were transferred from

the Company to GuideWell Group, Inc., a new noninsurance stock company which is also wholly owned by GuideWell.

IX. Conclusion, Summary of Recommendations and Company Responses

CCIIO has examined Blue Cross and Blue Shield of Florida, 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. While the examination findings and resultant recalculation of the Company's MLR did not result in any change to the Company's reported MLR for any of the markets in which it operates, the examination adjustment increased earned premium for the small group market and resulted in a \$4,322 increase of the rebate liability for 2013 due to enrollees in this market.

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

Recommendation #1

The Company should adopt and implement improved procedures to ensure that all market classification determinations are made in compliance with the definitions contained in section 2791 of the PHS Act and the applicable requirements of 45 CFR Part 158 and related technical guidance.

Company Response

The Company adopted and implemented improved procedures for the MLR reporting year 2014 and forward to ensure that all market classification determinations were made in compliance with the regulations.

CCIIO Reply

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

Recommendation #2

The Company should adopt and implement improved procedures to ensure that at the time of initial policy application and policy renewal, it obtains and maintains accurate information necessary to ensure that coverage is classified under the appropriate market, as defined by section 2791 of the PHS Act. This should include obtaining and maintaining documentation related to the average number of employees for the calendar year preceding the coverage effective (or renewal) date and the corporate status of policies issued to groups with one or fewer employees.

Company Response

The Company adopted and implemented improved procedures for the MLR reporting year 2014 and forward to ensure that the prior year's average number of employees was provided by the insured at the time of sale/renewal. This includes obtaining and maintaining documentation related to the average number of employees for the calendar year preceding the coverage effective (or

renewal) date and the corporate status of policies issued to all groups, including those with one or fewer employees.

CCIIO Reply

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

Recommendation #3

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, reflecting the additional rebate liability of \$4,322 due to the small group market subscribers for 2013. 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). In addition, 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 2014 and 2015 MLR Annual Reporting Forms resulted from CCIIO's examination findings.

The additional rebates for 2013 should be distributed with interest as provided in §158.240(e) as soon as possible but in no event later than sixty (60) days from the date of the Company's receipt of this Final Report.

Company Response

The Company will make the corrections in the prior year column of its 2015 MLR Annual Reporting Form (Part 3, Column PY2). In addition, the Company will upload supplemental documentation with the 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 2014 and 2015 MLR Annual Reporting Forms resulted from CCIIO's examination findings.

The additional rebates for 2013 will be distributed with interest as provided in §158.240(e) as soon as possible but in no event later than sixty (60) days from the date of the Company's receipt of CCIIO's Final Report.

CCIIO Reply

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

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