

Final
Report on the
Medical Loss Ratio Examination
of
Blue Cross Blue Shield of Michigan Mutual Insurance Company
(Detroit, Michigan)
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

October 11, 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 Blue Shield of Michigan Mutual Insurance Company (the Company) for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, Blue Cross Blue Shield of Michigan Mutual Insurance 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 & Insurance Oversight
Centers for Medicare & 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 Blue Shield of Michigan Mutual Insurance Company (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, but which do not impact consumer rebates. We recommend that the Company implement corrective actions to comply with various sections of 45 CFR Part 158, including ensuring the proper reporting of market classification of policies and the accuracy of the amounts reported on the MLR Annual Reporting Form.

The examination findings and resultant recalculation of the Company's MLR did not result in any change of its reported MLRs for the individual or small group market, but resulted in a net decrease of its reported MLR for the large group market of 0.1%. As the re-calculated MLRs continue to exceed the individual and small group market MLR standard of 80% and the large group market MLR standard of 85%, there was no impact on the Company's rebate liability in any of the markets in which it operates.

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 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
7	Failure to assign correct market classifications to policies as required by §158.220(a) – Due to accounting errors, the Company misallocated its earned premium, incurred claims and life-year experience for two policies in the sample tested, incorrectly classifying these policies as large group policies. One “policy” was for a self-funded group, which is not subject to the MLR reporting requirements, and the other should have been classified as a small group policy based on the information provided by the policyholder.
8	Failure to report taxes and regulatory fees on the appropriate line, as required by the MLR Annual Reporting Form Filing Instructions – The Company incorrectly reported its Patient Centered Outcomes Research Institute (PCORI) fee on the wrong line of Part 1, Section 3, of its 2013 MLR Annual Reporting Form.
8	Failure to properly report taxes and regulatory fee expenses for all markets as required by the MLR Annual Reporting Form Filing Instructions – The Company failed to report licensing and regulatory fee amounts in the Government Programs, Other Health and Uninsured Plans columns on its 2013 MLR Annual Reporting Form.
8	Failure to report the applicable MLR standard in Part 4, Line 5.1 as required by the MLR Annual Reporting Form Filing Instructions – The Company incorrectly omitted the MLR standard for the individual, small group and large group markets in completing its 2013 MLR Annual Reporting Form.

These findings did not result in any change to the Company’s reported MLR for the individual and small group markets, and resulted in a net decrease of the Company’s reported MLR for the large group market of 0.1%, for the 2013 reporting year. The three-year adjusted, aggregated numerator and denominator, along with resulting credibility-adjusted MLR for 2013, are shown in the following table. The amounts noted in the “As Recalculated” row reflect the adjustments made as a result of the incorrect market classifications.

Recalculated Aggregate Individual, Small Group and Large Group Market MLRs¹ for the 2013 Reporting Year

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

	Individual Market			Small Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$1,363,096,649	\$1,451,896,305	93.9%	\$2,695,323,201	\$3,303,038,051	81.6%
As Recalculated	\$1,363,096,649	\$1,451,896,305	93.9%	\$2,695,396,300	\$3,303,129,425	81.6%
Difference	\$0	\$0	0%	\$73,099	\$91,374	0%

	Large Group Market		
	Numerator	Denominator	MLR
As Filed	\$7,514,688,461	\$8,514,653,072	88.3%
As Recalculated	\$7,501,456,177	\$8,500,327,015	88.2%
Difference	(\$13,232,284)	(\$14,326,057)	(0.1%)

The recalculated amounts did not impact the Company's rebate liability for the 2013 reporting year, as the recalculated MLRs for the individual and small group markets continue to be above the 2013 MLR standard of 80% and the recalculated MLR for the large group market continues to be above the MLR standard of 85%.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a nonprofit mutual insurance company in the state of Michigan and primarily sells health insurance in the individual and group markets, but it also sells dental, vision, stop loss, and prescription drug insurance, including Medicare Part D policies. In addition, the Company provides a broad range of health benefit services for various affiliated and unaffiliated entities, including claims processing, reporting services, network access, and other administrative services.

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 of 45 CFR Part 158. As of December 31, 2013, the Company reported a total of 1,097,292 covered lives and \$4,523,510,160 in direct earned premium from policies subject to the MLR reporting and rebate requirements and a total of 4,402,073 covered lives and \$6,515,107,603 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 Part D, dental, vision, and stop loss coverage, 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>
Gregory A. Sudderth	Chairperson of the Board
Spencer C. Johnson	Vice Chairperson of the Board
Daniel J. Loepp	President, Chief Executive Officer and Director
Mark R. Bartlett	Executive Vice President, Chief Financial Officer & President of Emerging Markets
Carolynn Walton	Vice President and Treasurer
Joseph H. Hohner	Executive Vice President
Kenneth R. Dallafior	Executive Vice President
Darrell E. Middleton	Executive Vice President
Tricia A. Keith	Senior Vice President and Corporate Secretary & Services
Elizabeth R. Haar	Senior Vice President
Thomas L. Simmer, MD	Senior Vice President
Susan L. Barkell	Senior Vice President
Lynda M. Rossi	Senior Vice President
David A. Share, MD	Senior Vice President

Directors

Name

Public Members:

Darrell Burks
Ann M. Mervenne
William E. Meyers

Company Management Member:

Daniel J. Loepp

Provider Members:

Edward J. Canfield, D.O.
Brian M. Connolly
Diane R. Goddeeris, R.N., B.S.N.
Edward G. Jankowski, M.D.
Spencer C. Johnson
James W. Richards, R.N., PhD.
Edwin D. Secord III, D.D.S, M.S.
F. Remington Sprague, M.D.

Subscriber Members:

Joseph J. Ashton
Renee C. Axt
Jon E. Barfield
William H. Black

Terry W. Burns
 Steven B. Cook
 Patrick J. Devlin
 Sarah W. Doyle
 Bob King
 Melvin L. Larsen
 Gary J. McInerney
 Kathleen S. Neal
 Robert A. Patzer
 Wallace D. Riley
 Jean L. Rose
 Laura D. Swartzmiller
 James U. Settles, Jr.
 Gregory A. Sudderth
 Karla G. Swift
 S. Martin Taylor
 Gary H. Torgow
 John VanderMolen

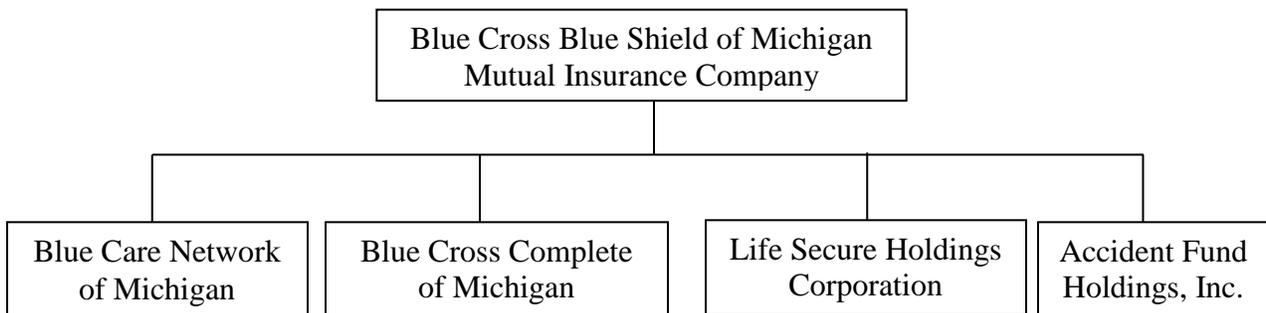
Company management and corporate-level personnel responsible for the preparation, submission and attestation of the 2013 MLR Annual Reporting Form were:

<u>Name</u>	<u>Title</u>
Daniel J. Loepp	CEO Attester
Mark R. Bartlett	CFO Attester

C. Ownership

The Company is a member of an insurance holding group system. On December 31, 2013, Blue Cross Blue Shield of Michigan merged with Blue Cross Blue Shield of Michigan Mutual Insurance Company (the surviving company), converting the Company from a for-profit to a nonprofit, mutual insurer.

**Blue Cross Blue Shield of Michigan Mutual Insurance Company
Organizational Chart as of 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. An Administrative Services Agreement with the Blue Cross Blue Shield of Michigan Foundation.
2. Management Services and Inter-Service Agreements with Blue Care Network of Michigan.
3. Contractual and Financial Obligation Guarantee Agreements with various subsidiaries.

E. Reinsurance

During 2011, the Company had a quota share reinsurance agreement in place with BCS Insurance Company for covering bone marrow and organ transplants, subject to a stated aggregate limit. There were no other ceded reinsurance agreements in effect during the examination period and the Company did not assume any reinsurance.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 600 East Lafayette Street, Detroit, Michigan 48226. 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, the Company incorrectly reported various elements on its MLR Annual Reporting Form.

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 and small group markets 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

The Company has adopted policies and procedures for determining group size and market classification that are consistent 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.

Reporting Based on Market Classification

Market Classification Reporting Errors

Although the Company employed procedures to correctly determine the group size and market classification of its policies, it incorrectly reported two policies on the 2013 MLR Annual Reporting Form.

Based on testing of the Company's market classification of its policies, one group policy in the sample selected revealed that the experience for one self-funded plan was incorrectly reported with the large group market experience. The Company explained that this error occurred because, due to the specific billing requirements of the self-funded plan, it needed to be administered from the same policy administration system used for fully insured plans, and the Company failed to manually adjust the policy's classification when it completed its 2011, 2012 and 2013 MLR Annual Reporting Forms. Consequently, \$13,158,185 in aggregate incurred claims and \$14,234,683 in aggregate earned premium for this policy were subtracted from the Company's large group market as part of the examination.

Testing also found that one small group policy in the sample selected was incorrectly reported by the Company as a large group policy for purposes of completing the 2013 MLR Annual Reporting Form. Due to a data entry error the Company made when it recorded the results of a survey received from an employer group confirming the average number of employees on the business days of the preceding calendar year, the Company recorded that the employer had 191 employees when, in fact, based on the survey, it only had 19 employees. Consequently, \$73,099 in 2013 incurred claims and \$91,374 in 2013 earned premiums were reallocated from the Company's large group market experience to its small group market experience as part of the examination.

Aggregation

Other than the market classification reporting errors 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 market classification reporting errors 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

The Company accurately reported recoveries of paid fraudulent claims, which §158.140 (b)(2)(iv) allows as an adjustment to incurred claims up to the amount of fraud reduction expenses.

Quality Improvement Activities

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

Earned Premium

Other than the market classification reporting errors noted above, based on 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 compliant with §158.130.

Taxes

The Company incorrectly recorded Patient Centered Outcomes Research Institute (PCORI) fees on Part 1, Line 3.2a of its 2013 MLR Annual Reporting Form rather than on Line 3.1b, as required by the MLR Annual Form Filing Instructions. However, this reporting error did not impact the Company's MLR calculation as the total amount of taxes and regulatory fees was correctly reported. In addition, the Company failed to report its regulatory and licensing fees of \$579,342 allocated to the Government Programs, Other Health and Uninsured Plans columns of Part 1, Section 3 on the Company's 2013 MLR Annual Reporting Form. As the correct amount of regulatory and licensing fees was reported in the individual, small group and large group markets, the omission did not impact the Company's MLRs.

Other than the market classification and regulatory and licensing fees reporting errors noted above, 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 its 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 the underwriting gain or loss, which the examiner confirmed during the examination.

B. Credibility-Adjusted MLR and Rebate Amount

Incorrect Reporting of MLR Standard

The Company incorrectly omitted the applicable MLR standard in Part 4, Line 5.1 on its 2013 MLR Annual Reporting Form, as required by the MLR Annual Reporting Form Filing Instructions. The Company should have indicated that the applicable MLR standard was 80% for the individual and small group markets and 85% for the large group market. This error did not have any impact on the MLR calculation.

Other than the reporting error noted above, 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 the individual, 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 in 2011, 2012 or 2013 as a result of the MLR calculations. Based on substantive

testing, the Company timely issued the 2011 Notice (of no rebate) in accordance with §158.251 and was not required to (and did not) issue any Notices for the 2012 or 2013 MLR reporting years.

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. However, we were informed that the Michigan Department of Insurance and Financial Services (DIFS) performed a financial examination of the Company in 2014 covering the period from January 1, 2011 through December 31, 2013. The financial examination resulted in one finding, which did not appear to impact the Company's federal MLR calculation or reporting.

VII. Impact of Findings

The cumulative effect of all errors and findings did not impact MLR rebates since recalculating the MLR to correct for the incorrectly reported items did not cause the Company's MLR in any market to fall below the applicable MLR standard.

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 have been brought to CCIIO's attention.

IX. Conclusion, Recommendations and Company Responses

CCIIO has examined Blue Cross Blue Shield of Michigan Mutual Insurance Company'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 examination findings and 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.

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

Recommendation #1

The Company should adopt and implement procedures to ensure that it properly determines the market classification of its policies in accordance with the requirements of §158.220(a).

Company Response

“The Company agrees with the recommendation and appreciates the importance of proper market classification for MLR determination purposes. The Company regularly reviews and updates its procedures with respect to MLR reporting to verify market classifications and calculations are accurate and complete in accordance with CMS issued MLR regulations and other published guidance.”

CCIIO Reply

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

Recommendation #2

The Company should adopt and implement procedures to ensure compliance with the requirements of the MLR Annual Reporting Form Filing Instructions, including, but not limited to the accurate reporting of taxes and regulatory fees, reporting the MLR standards for each market, and allocating and reporting all required amounts for all markets and lines of business.

Company Response

“The Company agrees with the recommendation. The Company regularly reviews and updates its procedures with respect to MLR reporting requirements to verify that MLR filings are accurate and timely completed in accordance with CMS issued MLR regulations and other published guidance.”

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.