

Final  
Report on the  
Medical Loss Ratio Examination  
of  
**ConnectiCare of Massachusetts, Inc.**  
(Boston, Massachusetts)  
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**

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December 29, 2016

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 ConnectiCare of Massachusetts, Inc. (the Company) for the 2013 reporting year, including 2012 and 2011 data reported on that form. Following an exit conference, ConnectiCare of Massachusetts, 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.

A handwritten signature in blue ink that reads 'Christina A. Whitefield'. The signature is written in a cursive style.

Christina A. Whitefield, 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

## Table of Contents

I.	Executive Summary .....	1
II.	Scope of Examination .....	1
III.	Summary of Key Findings .....	2
IV.	Company Overview .....	3
	A. Description, Territory, and Plan of Operation .....	3
	B. Management .....	3
	C. Ownership .....	4
	D. Agreements .....	5
	E. Reinsurance .....	5
V.	Accounts and Records .....	5
VI.	Examination Results .....	6
	A. MLR Data .....	6
	B. Credibility-Adjusted MLR and Rebate Amount .....	8
	C. Rebate Disbursement and Notice .....	8
	D. Compliance with Previous Recommendations .....	8
VII.	Impact of Findings .....	8
VIII.	Subsequent Events .....	9
IX.	Conclusion, Recommendations and Company Responses .....	9

## **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 ConnectiCare of Massachusetts, 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 contains some elements that are not fully compliant with the requirements of 45 CFR Part 158. Due to the lack of adequate documentation supporting group size and market classification determinations, we cannot conclusively assess the impact of these examination findings 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 adequate information to accurately determine group size and market classification of policies, and ensuring the accuracy of the amounts reported on the MLR Annual Reporting Form.

The examination findings and resultant recalculation of the Company's 2013 MLRs resulted in a net increase of the Company's reported MLR for the small group market of 0.1% and no change to the MLR in the large group market. As the recalculated MLRs continue to exceed the small group MLR standard of 82% and the large group market MLR standard of 85%, the findings did not have an impact on the Company's rebate liability in any of the markets in which it had health insurance coverage in effect.

## **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). However, Massachusetts generally imposes a higher MLR standard in the individual and small group markets than that required by federal law, and the Massachusetts standard may vary from year to year as well as across companies. Therefore, in accordance with §158.211, the Massachusetts MLR standard is applied for purposes of the federal MLR and rebate calculations in the individual and small group markets to the extent the Massachusetts standard exceeds 80%. The standards applicable to the Company in the state of Massachusetts were 82% for 2013 and 80% for 2011 and 2012 in the small group market, and 85% for 2011-2013 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 our 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
6	<b>Failure to employ standards consistent with the requirements of 45 CFR 158.220(a) in assigning correct market classifications to its policies</b> – The Company did not correctly obtain the average number of employees of each group policyholder on the business days of the calendar year preceding the coverage effective date and therefore may not have correctly determined each group’s size and market classification in accordance with the definitions at Section 2791(e) of the PHS Act.
7	<b>Failure to accurately allocate quality improvement activity (QIA) expenses as required by 45 CFR 158.170</b> – The Company overstated its 2012 large group market QIA expenses and understated its small group market QIA expenses by the same amount due to a recording error.

**The finding regarding the inaccurately allocated QIA expenses resulted in a net increase to the Company’s reported MLR for the small group market of 0.1% and no change to the MLR for the large group market for the 2013 reporting year. However, due to the Company’s failure to obtain adequate documentation to support its 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.** The three-year adjusted, aggregated numerator and denominator, along with resulting credibility-adjusted MLR for 2013, are shown in the following table. The amounts in the “As Recalculated” row reflect the adjustments made to reclassify the QIA expenses that were inaccurately allocated.

Because the Company’s experience in the large group market in the state of Massachusetts included fewer than 1,000 aggregate life-years, the experience is considered to be non-credible in accordance with §158.230(c)(3). According to §158.230(d), if an issuer’s experience in a particular state and market is non-credible, the issuer’s MLR is presumed to meet or exceed the

applicable MLR standard. Consequently, the tables below show an MLR of 85% (equal to the applicable standard) for the large group market.

**Recalculated Aggregate Small and Large Group Market MLRs<sup>1</sup> for the 2013 Reporting Year**

	Small Group Market			Large Group Market		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$32,515,951	\$40,633,068	82.7%	\$3,426,801	\$4,327,107	85%
As Recalculated	\$32,585,550	\$40,633,068	82.8%	\$3,357,202	\$4,327,107	85%
Difference	\$69,599	\$0	0.1%	(\$69,599)	\$0	0%

The recalculated amounts did not impact the Company’s rebate liability for the 2013 reporting year as the recalculated MLR for the small group market continues to be above the 2013 MLR standard of 82% and the recalculated MLR for the large group market continues to be presumed to meet the MLR standard of 85%.

**IV. Company Overview**

**A. Description, Territory, and Plan of Operation**

The Company is a for-profit health maintenance organization (HMO) which sells managed care health plans in Hampden, Hampshire, Franklin and parts of Berkshire counties in Massachusetts and offers both point-of-service and HMO plan products.

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 3,176 covered lives and \$14,835,455 in direct earned premium from policies subject to the MLR reporting and rebate requirements. The Company did not report any business from lines of business that were not subject to the MLR regulations at 45 CFR Part 158.

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

<b><u>Name</u></b>	<b><u>Title</u></b>
Michael Richard Wise	President

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

Frank Anthony Scalise	Vice President, CFO and Treasurer
William Mastro, Esq	Secretary
Mary Therese Leggio Bannon, Esq.	Senior Vice President and Assistant Secretary
Jean Angela Bisio	Senior Vice President
Frank Joseph Branchini	Chairperson
Craig Howard Effrain Esq.	Assistant Secretary
Richard Ashley Rogers	Senior Vice President
Mark Anthony Verre	Senior Vice President
Michelle Marie Zettergren	Senior Vice President and Chief Sales & Marketing Officer

**Board of Directors**

**Name**

Frank Joseph Branchini

Daniel Philip Finke

Michael Richard Wise

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

**Name**

Michael Richard Wise

Frank Anthony Scalise

**Title**

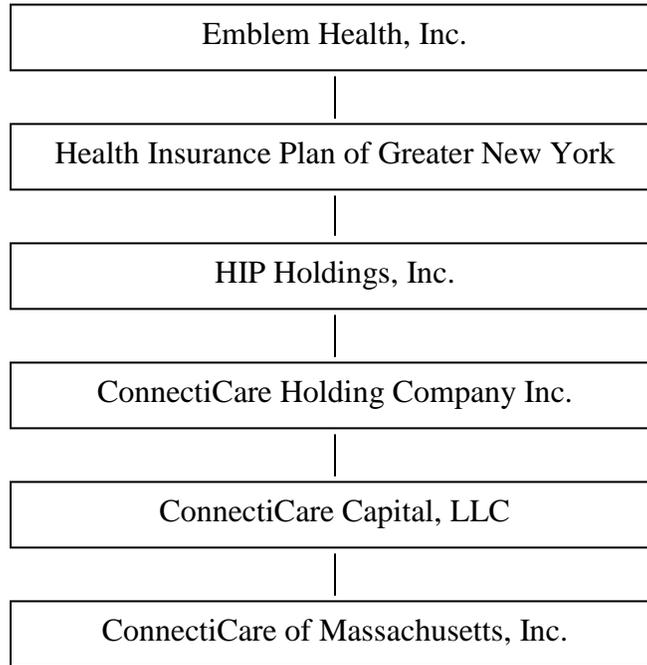
CEO Attester

CFO Attester

**C. Ownership**

The Company is a member of an insurance holding group system. Emblem Health Inc., a stock company, is the ultimate controlling entity of the Company.

**ConnectiCare of Massachusetts, Inc.  
Organization Chart<sup>2</sup> 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 various affiliated companies.
2. A Tax-Sharing Agreement with various affiliated companies.

**E. Reinsurance**

During 2011, 2012 and 2013, the Company had an excess loss reinsurance agreement in place with an affiliated entity and several excess medical reinsurance agreements in place with a non-affiliated entity, neither of which were subject to the MLR reporting requirements. 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 175 Scott Swamp Road, Farmington, CT 06032-3124. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

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<sup>2</sup> This is an excerpt from the organization chart provided by the Company and includes only those entities whose relationship to the Company impacted the MLR examination.

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, was not obtained by the Company in a manner that accurately supports its market classification determinations.

## **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.

As noted in Section II above, Massachusetts generally imposes a higher MLR standard than the 80% standard required by federal law in the individual and small group markets, and the Massachusetts MLR standard may further differ from year to year as well as from company to company. The Company was subject to and met the MLR standard of 82% for 2013 and 80% for 2012 and 2011 in the small group market and thus was not required to pay rebates to its enrollees in that market. During all three years under Examination, the was presumed to meet the MLR standard of 85% in the large group market because its experience was non-credible and thus was not required to pay rebates to its enrollees in that market either.

### **A. MLR Data**

#### **Market Classification Policies and Procedures**

##### *Incorrect Procedures for Determining 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. 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 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*. Based on the documentation available to the examiners, the Company incorrectly determined the group size, and consequently the market classification, of its policies based on the *total number of employees* at the time of either the initial policy application or policy renewal. However, and despite the fact that the Company employed standards that were inconsistent with the requirements in §158.220 and the accompanying definitions at §158.103, the policies tested during the examination were assigned to the correct market classification based on the (possibly incorrect) information the Company obtained from the group policyholder.

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.

### **Aggregation**

Other than the possibly 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 and lines of business in accordance with §158.120.

### **Incurred Claims**

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

### **Claims Recovered Through Fraud Reduction Efforts**

Other than the possibly incorrect group size and market classification determinations noted above, 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.

#### *Error in allocating QIA expenses*

During the examination, the Company disclosed that for the 2012 reporting year, it had inadvertently overstated QIA expenses in the large group market by \$69,599 while understating QIA expenses in the small group market by the same amount. The error was the result of an oversight made when completing the 2012 MLR Annual Reporting Form. Other than the error noted above, based on substantive testing, QIA expenses were accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

### **Earned Premium**

Other than the possibly incorrect group size and market classification determinations 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**

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. Other than the possibly incorrect market classification determinations 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 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/loss, 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 and the applicable MLR Annual Reporting Form Instructions. 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 small group market and was presumed to meet the applicable standard in the large group market, no rebates were due for 2012 or 2013. Due to a technical problem with the 2011 MLR Annual Reporting Form that prevented the Company from reporting the 80% MLR standard applicable to the Company instead of the 88% standard generally applicable in the Massachusetts individual and small group markets, the 2011 Form appears to show that the Company owed rebates in the small group market for 2011. However, based on the 80% standard applicable to the Company and the 80.6% final MLR the Company reported in the small group market for 2011, the Company did not owe any rebate for 2011 in the small group market. The Company also did not owe any rebate for 2011 in the large group market because due to very low enrollment, under §158.230(d) it was presumed to meet the MLR standard in that market.

### **C. Rebate Disbursement and Notice**

As noted above, 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 §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 CCHIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. However, the Commonwealth of Massachusetts, Office of Consumer Affairs and Business Regulation Division of Insurance, performed a financial examination of the Company in 2011 covering the period January 1, 2006 through December 31, 2010. The financial examination did not result in any findings.

## **VII. Impact of Findings**

Because of the lack of accurate documentation supporting group size and market classification determinations, 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 time period covered by this examination. The inaccurately allocated QIA expenses resulted in a net increase to the Company's reported MLR for the small group market of 0.1% and no change to the MLR for the large group market for the 2013 reporting year.

## **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. There were no post-December 31, 2013 significant events which were brought to our attention.

## **IX. Conclusion, Recommendations and Company Responses**

CCIIO has examined ConnectiCare of Massachusetts, 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 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. However, as noted above, because of the lack of accurate information supporting the Company's group size and market classification determinations, 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.

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 accurate documentation related to the average total 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**

"As of September, 2015, the Company's procedures were enhanced to ensure that the information necessary to determine market classification is collected at the time of policy application and at each renewal. Specifically, the documentation maintained reflects the average number of employees for the calendar year preceding coverage effective or renewal date. This

information is now used to determine market classification in accordance with the requirements of §158.220(a).”

CCIIO Reply

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

**Recommendation #2**

The Company should allocate QIA expenses to the appropriate market in an accurate manner in accordance with 45 CFR 158.170.

Company Response

“The observation made during the audit was isolated to the 2012 filing only. As noted in the examination report, this misclassification had no impact on the rebate owed. QIA allocation procedures have been enhanced to improve documentation of allocations and supervisory review processed at the time of filing. We believe the enhanced procedures are adequate to mitigate the risk of QIA allocation errors in the MLR filings.”

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.