

REPORT OF MEDICAL LOSS RATIO
EXAMINATION

OF THE

ANTHEM BLUE CROSS LIFE AND HEALTH
INSURANCE COMPANY

AS OF
DECEMBER 31, 2013

Filed on April 22, 2016

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Los Angeles, California
February 19, 2016

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, a Medical Loss Ratio examination was made of the

Anthem Blue Cross Life and Health Insurance Company

(hereinafter also referred to as the Company) at the primary location of its books and records at 120 South Via Merida, Thousand Oaks, California 91362. The Company's statutory home office and main administrative office is located at 21555 Oxnard Street, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed a Medical Loss Ratio (MLR) examination of the Company to determine compliance with California Insurance Code (CIC) Section 10112.25 related to minimum medical loss ratio requirements. CIC Section 10112.25 grants the Insurance Commissioner authority to adopt regulations to implement the medical loss ratio as described under Section 2718 of the federal Public Health Service Act. Section 2718 of the federal Public Health Service Act authorizes the U.S. Code of Federal Regulation (CFR) Title 45 – Public Welfare Part 158 to be implemented. This examination covers the twelve months ending December 31, 2013.

We performed procedures established by the U.S. Department of Health & Human Services (HHS) to examine the MLR Annual Reporting Form as completed by the Company and submitted to HHS for the 2013 MLR reporting year, to ensure the validity

of the underlying data, accuracy of the calculation, and accuracy and timeliness of the rebate payments made and reported in compliance with Title 45 CFR Part 158. Title 45 CFR §158.403(a)(2) permits HHS to accept the State's audit provided it, amongst other things, reports on the validity of the data regarding expenses and premiums that the issuer reported to the Secretary of HHS, including the appropriateness of the allocations of expenses used in such reporting and whether the activities associated with the issuer's reported expenditures for quality improving activities meet the definition of such activities. Title 45 CFR §158.403(a)(3) further permits HHS to accept the State's audit provided it also, amongst other things, reports on the accuracy of rebate calculations and the timeliness and accuracy of rebate payments.

OWNERSHIP

The Company is a wholly-owned subsidiary of WellPoint California Services, Inc., whose ultimate parent is Anthem, Inc.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact life and disability insurance solely in the state of California. The Company offers traditional medical and dental coverage, as well as preferred provider organization and indemnity coverage, and provides administrative services relating to health plans for self-insured employers. The Company also writes life insurance for individuals and group term life insurance for small and large employer groups. The Company's total direct written premium for the year ending 2013 was \$5.3 billion, of which 80.4% consists of comprehensive health coverage for preferred provider organization health plans for individuals, small, midsize, and large employers. The remaining 19.6% consists of Medicare, vision, dental, various other health coverages, and life.

The Company is a member of an insurance holding company system. Anthem, Inc., is one of the largest health benefits providers in the United States. The Company operates as a licensee of the Blue Cross Blue Shield Association. The Company

services approximately 3.4 million members. The Company does not have its own employees. Services are provided to the Company by its affiliate, Blue Cross of California. The Company markets its products through independent agents and direct marketing.

MEDICAL LOSS RATIO REPORTING FORM

Title 45 of the U.S. Code of Federal Regulations (CFR) §158.110(b) requires that a report for each Medical Loss Ratio (MLR) reporting year be submitted to the Secretary of the U.S. Department of Health and Human Services by June 1st of the year following the end of an MLR reporting year, on a form and in the manner prescribed by the Secretary. Based on our review of the filing, the Company filed an acceptable form by June 1, 2014 for the 2013 reporting year and is in compliance with Title 45 CFR §158.110(b).

Title 45 CFR §158.210(a) requires that an issuer must provide a rebate to enrollees if the issuer has a Medical Loss Ratio (MLR) of less than 85% for the large group market, mini-med large group market and student business market. Title 45 CFR §158.210(b) and (c) require that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 80% for the small group market and the individual market. The Company's MLR and rebate calculations from the 2013 MLR Annual Reporting Form, Part 4 are as follows:

MLR Components	Individual	Small Group	Large Group	Mini-Meds Large Group	Student Business	Notes
Adjusted Incurred Claims	\$3,482,115,386	\$2,431,002,817	\$4,098,074,305	\$37,556,335	\$19,140,850	
Plus: Quality Improvement Expenses	\$52,254,034	\$31,461,062	\$40,654,898	\$1,789,365	\$643,573	
MLR Numerator	\$3,535,655,976	\$2,462,463,879	\$4,138,729,203	\$59,018,550	\$22,752,087	(1)
Premium Earned	\$4,451,020,755	\$3,109,558,162	\$5,108,571,236	\$54,915,480	\$21,675,172	
Less: Federal & State Taxes and Licensing or Regulatory Fees	\$115,579,960	\$125,648,418	\$266,138,935	\$511,842	\$633,109	
MLR Denominator	\$4,335,440,795	\$2,983,909,744	\$4,842,432,301	\$54,403,638	\$21,042,063	(2)

MLR Components	Individual	Small Group	Large Group	Mini-Meds Large Group	Student Business	Notes
Preliminary MLR Before Credibility Adjustment	81.6%	82.5%	85.5%	108.5%	108.1%	
Credibility Adjustment	N/A	N/A	N/A	1.1%	2.2%	(3)
Credibility-Adjusted MLR	81.6%	82.5%	85.5%	109.5%	110.3%	(4)
MLR Standard	80%	80%	85%	85%	85%	
Rebate Amount	\$0	\$0	\$0	\$0	\$0	(5)

Based on this review, it was noted that the majority of the groups included in the mini-med large group market segment were improperly classified and should have been included in the student business classification. This classification refinement does not alter the rebate status of the Company in 2013 as both mini-med large group and student business segments were well above the minimum required medical loss ratio for their respective segment. It is recommended that the Company implement procedures to properly identify and aggregate student business and mini-med large group market experience for MLR reporting purposes.

COMMENTS ON MEDICAL LOSS RATIO CALCULATION

(1) Medical Loss Ratio Numerator

According to the U.S. Code of Federal Regulations (CFR) Title 45 §158.221(b), the numerator of the Medical Loss Ratio (MLR) calculation is comprised of incurred claims, as defined in Title 45 CFR §158.140, plus expenditures for activities that improve health care quality, as defined in Title 45 CFR §158.150, and Title 45 CFR §158.151. We verified the data used to calculate the adjusted incurred claims. Based on our review, the Company included appropriate adjusted incurred claims in the MLR numerator.

We reviewed the reasonableness of the health care quality improvement expenses including confirming that the methodology complies with the narrative provided within the Part 4 - Expense Allocation portion of the MLR Reporting Form and conforms to the definition of Healthcare Quality Improvement Expenses as defined by Title 45 CFR §158.150, and Title 45 CFR §158.151. Based on our review, the Company's allocation

methodology and health care quality improvement expenses reported in the MLR numerator is reasonable and conforms to the regulations.

(2) Medical Loss Ratio Denominator

According to Title 45 CFR §158.221(c), the denominator of the MLR calculation is comprised of premium revenue, as defined in Title 45 CFR §158.130, minus federal and state taxes and licensing and regulatory fees, described in Title 45 CFR §158.161(a), and Title 45 CFR §158.162(a) (1) and (b) (1). We verified the data used to calculate the premium revenue. Based on our review, the Company included appropriate premiums earned in the MLR denominator.

We reviewed the reasonableness and appropriateness of the federal and state taxes and regulatory fees including the appropriateness of allocations and the definition of such activities. Based on our review, the Company's allocation methodology and federal and state taxes and regulatory fees reported in the MLR denominator is reasonable and conforms to the regulations.

(3) Credibility Adjustment

According to Title 45 CFR §158.232, the credibility adjustment is the product of the base credibility factor multiplied by the deductible factor. The experience for the individual, small group and large group market segments were fully credible, therefore, no base credibility factors were calculated for these segments. The experience for the mini-med large group and the student business market segments were partially-credible and a credibility factor of 1.1% and 2.2%, respectively, were calculated in accordance with Title 45 CFR §158.232.

The individual market segment reported an average deductible of \$3,287 and a deductible factor of 1.239 was calculated according to Title 45 CFR §158.232(c). The small group and large group market segments reported average deductibles of \$1,875, and \$1,063, respectively, and were assigned a deductible factor of 1 in accordance with

Title 45 CFR §158.232(c). Neither the mini-med large group nor the student business market segments reported an average deductible, therefore, a deductible factor of 1 was assigned in accordance with Title 45 CFR §158.232(c). Based on our review, the Company appropriately calculated the credibility adjustments.

(4) Credibility Adjusted Medical Loss Ratio

According to Title 45 CFR §158.221(a), the calculation of MLR is the ratio of the numerator to the denominator, subject to the applicable credibility adjustment, if any. Based on our review, it appears that the Company appropriately calculated the MLRs for each market segment.

(5) Rebate Amount, Calculation and Distribution

According to Title 45 CFR §158.240, a rebate is required if an issuer's MLR is less than the minimum MLR standard. Based on our review, the Company's MLRs exceeded the minimum percentage for the all market segments.

REBATE NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.250(a) and (b), a notice of rebate is required when the medical loss ratios do not exceed the minimum percentage. Based on our review, the Company's medical loss ratios exceeded the minimum percentage for all market segments and no rebates were issued.

MEDICAL LOSS RATIO INFORMATION NOTICE

According to Title 45 of the U.S. Code of Federal Regulations §158.251(a), a one-time notice of MLR information is required when the medical loss ratio exceeds the minimum MLR standard. The Company's MLRs exceeded the minimum standard for the all market segments. Based on our review, the Company appropriately issued MLR information notices to its enrollees.

REBATE PAYMENTS ON SOLVENCY

According to Title 45 of the U.S. Code of Federal Regulations §158.270(a), rebate payments having any adverse impact to the Company's Risk Based Capital (RBC) level requires notification by the California Department of Insurance to the Secretary of the U.S. Department of Health & Human Services (HHS). Based on our review, the Company's MLRs exceeded the minimum percentage for all market segments, and no rebates were issued, therefore there was no impact on the RBC level that would warrant notification to the Secretary of HHS.

SUMMARY OF COMMENTS, FINDINGS AND RECOMMENDATIONS

Current Report of Examination

Medical Loss Ratio Reporting Form (Page 3) - It is recommended that the Company implement procedures to properly identify and aggregate student business and mini-med large group market experience for Medical Loss Ratio reporting purposes.

Previous Report of Examination

None

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/S/_____
Cuauhtémoc Beltran, CFE
Senior Insurance Examiner
Examiner-In-Charge
Department of Insurance
State of California