

REPORT OF MEDICAL LOSS RATIO
EXAMINATION
OF THE
ANTHEM BLUE CROSS LIFE AND HEALTH
INSURANCE COMPANY
AS OF
DECEMBER 31, 2017

Filed on August 28, 2019

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Los Angeles, California
June 30, 2019

Honorable Ricardo Lara
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 Company's statutory home office and main administrative office located at 21555 Oxnard Street, Woodland Hills, California 91367. The primary location of the Company's books and records is at 120 S. Via Merida, Thousand Oaks, California 91362.

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, 2017.

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 2017 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 2017 was \$2.0 billion, of which 59.8% consisted of comprehensive health coverage for preferred provider organization health plans for individual, small, midsize, and large employers. The remaining 40.2% consisted 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 benefit providers in the United States. The Company operates as a licensee of the Blue Cross Blue Shield Association. The Company services approximately 2.2 million members. The Company does not have its own employees.

Employees of Anthem, Inc. and its subsidiaries provide administrative services on behalf of the Company. 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 July 31st of the year following the end of a 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 July 31, 2018 for the 2017 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 an MLR of less than 85% for the large group 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, the individual market and student business market.

The three-year adjusted, aggregate numerator and denominator, along with the resulting credibility-adjusted MLR for 2017, are shown in the following tables. Table I shows the “As Filed” amounts for markets with no adjustments made due to this examination.

Table I

Individual			
	Numerator	Denominator	MLR
As Filed	\$1,083,256,097	\$1,347,415,226	80.4%

Table II and Table III show the differences between the amount in the “As Recalculated” and “As Filed” which reflect the net impact of the adjustment made as a result of the identified findings due to this examination. The findings resulted in a net increase to the Company’s reported MLRs for the large group and student health markets. The recalculated MLRs did not result in the Company owing rebates.

Table II

	Small Group			Large Group		
	Numerator	Denominator	MLR	Numerator	Denominator	MLR
As Filed	\$406,720,093	\$463,682,941	87.7%	\$2,789,682,525	\$3,261,694,695	85.5%
As Recalculated	\$405,393,739	\$463,682,941	87.4%	\$2,806,602,334	\$3,278,145,831	85.6%
Difference	(\$1,326,354)	\$0	(0.3%)	\$16,919,809	\$16,451,136	0.1%

Table III

	Student Health		
	Numerator	Denominator	MLR
As Filed	\$97,653,888	\$106,484,011	92.6%
As Recalculated	\$100,671,628	\$107,732,676	94.4%
Difference	\$3,017,740	\$1,248,665	1.8%

FINDINGS

(1) Reclassification and reporting errors

During our examination, the Company discovered reporting errors made in the reclassification of premiums and claims from the large group to the other health market for certain business unit and in the reclassification of certain groups from large group to the other health market which did not qualify as short-term, limited-duration insurance, and should have been reported in the student health segment.

Due to these errors, the Company inadvertently understated the large group market earned premiums and incurred claims for the years 2016 and 2017. The identified issue resulted in understatements for the aggregate three years included in the 2017 Medical

Loss Ratio (MLR) Annual Reporting Form of \$13,851,537 and \$15,593,455 for premiums earned and incurred claims, respectively.

In addition, the Company inadvertently understated the student health market earned premiums and incurred claims for the year 2017. The identified issue resulted in understatements for the aggregate three years included in the 2017 MLR of \$3,374,279 and \$3,017,740 for premiums earned and incurred claims, respectively.

In addition, the reporting error resulted in an aggregate three year adjustment of (\$718,451) for the large group segment, and \$244,466 for the student health segment to the MLR Part 3 – Line 2.2 Federal and State taxes, and licensing or regulatory fees. The reporting error did not result in the Company owing rebates.

It is recommended that the Company implement procedures to properly identify and aggregate the experience of all policies issued during the reporting year to the appropriate market, as required by U.S. Code of Federal Regulation (CFR) Title 45 – Public Welfare Part 158.130.

(2) Premium tax allocation

During 2017, the Company did not incur premium taxes for the large group market. However, a portion of the premium taxes incurred for the student health market was improperly allocated to the large group market. The Company overstated the large group premium taxes, and understated the student health market premium taxes by \$1,881,148. The reporting error did not result in the Company owing rebates.

It is recommended that the Company implement procedures to properly allocate premium taxes among the Company's markets, as required by 45 CFR §158.170.

(3) Large group pharmacy (Rx) claims misclassified as small group

During our current MLR examination, it was observed that the Company erroneously included large group pharmacy (Rx) claims in the small group market. The issue was due to a system error that occurred when the Company changed the definition of small group from 2 through 50 to 2 through 100 in the 2017 reporting year. There were a total of 149 groups affected resulting in an overstatement of the small group and understatement of the large group incurred claims of \$1,326,354. The reporting error did not result in the Company owing rebates.

It is recommended that the Company implement procedures to properly identify and aggregate the experience of all policies issued during the reporting year to the appropriate market as required by 45 CFR §158.220(a).

COMMENTS ON MEDICAL LOSS RATIO

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 §158.151. We verified the data used to calculate the adjusted incurred claims. Based on our review, other than the reporting errors noted in the “FINDINGS” section, no additional findings related to the accuracy were noted.

The reasonableness of the health care quality improvement expenses, including confirming that the methodology complies with the narrative provided within Part 4 - Expense Allocation in the MLR Reporting Form, and its conformity to the definition of Healthcare Quality Improvement Expenses, as defined by Title 45 CFR §158.150 and §158.151 were reviewed. Based on the review, the Company’s allocation methodology and health care quality improvement expenses reported in the MLR numerator is reasonable and conforms to the regulations.

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, as described in Title 45 CFR §158.161(a), and §158.162(a)(1) and (b)(1). The data used to calculate the premium revenue was verified. Based on the review, other than the reporting errors noted in the “FINDINGS” section, no additional findings related to the reporting of earned premium were noted.

The reasonableness, and appropriateness of the federal and state taxes and regulatory fees including the appropriateness of allocations and the definition of such activities were reviewed. Based on the review, other than the reporting errors noted in the “FINDING” section, no additional findings related to the Company’s allocation methodology, and federal and state taxes and regulatory fees reported in the MLR denominator were noted.

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 student health market segment was partially-credible, and a credibility factor of 0.9% was calculated in accordance with Title 45 CFR §158.232.

The individual market segment reported an average deductible of \$2,692 and a deductible factor of 1.18 was calculated according to Title 45 CFR §158.232(c). The small group and large group market segments reported average deductibles of \$1,068, and \$995, respectively, and were assigned a deductible factor of 1 in accordance with Title 45 CFR §158.232(c). The student health market did not report 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.

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.

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.

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

Findings – Reclassification and reporting errors (Page 4) - It is recommended that the Company implement procedures to properly identify and aggregate the experience of all policies issued during the reporting year to the appropriate market, as required by U.S. Code of Federal Regulation (CFR) Title 45 – Public Welfare Part 158.130.

Findings – Premium tax allocation (Page 5) – It is recommended that the Company implement procedures to properly allocate premium taxes among the Company's markets, as required by Title 45 CFR §158.170.

Findings – Large group pharmacy (Rx) claims misclassified as small group (Page 5) – It is recommended that the Company implement procedures to properly identify and aggregate the experience of all policies issued during the reporting year to the appropriate market as required by 45 CFR §158.220(a).

Previous 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 MLR reporting purposes. The Company no longer writes mini-med large group policies. Proper aggregation of student health business was confirmed.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parent company's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

____/S/_____

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