REPORT OF MEDICAL LOSS RATIO EXAMINATION OF THE ANTHEM BLUE CROSS LIFE AND HEALTH INSURANCE COMPANY AS OF DECEMBER 31, 2022

Insurance Commissioner

Filed on September 30, 2025

TABLE OF CONTENTS

PAGE

Los Angeles, California
July 30, 2025

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). The Company's statutory home office and main administrative office is located at 21215 Burbank Boulevard, Woodland Hills, California 91367. The primary location of the Company's books and records is at 21215 Burbank Boulevard, 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 MLR, 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 Regulations (CFR) Title 45 – Public Welfare Part 158 to be implemented. This examination covers the three-year aggregate period ending December 31, 2022.

We performed procedures established by the U.S. Department of Health and Human Services (HHS) to examine the MLR Annual Reporting Form as completed by the Company and submitted to HHS for the 2022 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 Elevance Health, 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 2022 was $1.9 billion, of which 40.5% consisted of comprehensive health coverage for preferred provider organization health plans for individuals, large employers, and student health plans. The remaining 59.5% of premiums consisted of lines of business not subject to the Medical Loss Ratio (MLR) regulations under Title 45 Code of Federal Regulation (CFR) Part 158, including Medicare Advantage, vision, dental, various other health coverages, and life insurance.

The Company is a member of an insurance holding company system. Elevance Health, Inc., is one of the largest health benefits providers in the United States. The Company operates as a licensee of the Blue Cross and Blue Shield Association. The Company services approximately 2.6 million members. The Company does not have its own employees. Employees of Elevance Health, 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, 2023, for the 2022 reporting year, and complies 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, individual, and student health plans market.

The Company reported that it met or exceeded the applicable MLR standard in the individual and student health plans markets, for 2022, and thus was not required to pay rebates to its enrollees for these markets. The Company reported that it did not meet the 85% MLR standard in the large group market in 2022, and paid rebates totaling $5,349,271. However, due to the errors of third-party margin calculation and removal of non-medical premium noted under the “COMMENTS ON MEDICAL LOSS RATIO” section, the Company’s MLRs for the 2022 reporting year were recalculated and resulted in a rebate liability of $3,890,237 in the large group market, $1,459,034 less than the Company reported.

The three-year adjusted, aggregate numerator and denominator, along with the resulting credibility-adjusted MLR and rebates for 2022, are shown in the following tables. The differences between the amount in the "As Recalculated" and "As Filed" rows reflect the net impact of the adjustments made to properly reflect incurred claims and earned premiums as a result of the identified findings due to this examination. It is recommended that the Company makes necessary adjustment to the calculation to ensure future compliance with Title 45 CFR §158.210(a).

Recalculated MLRs[1] and Rebates for the Individual, Large Group, and Student Health Plans markets for the 2022 Reporting Year

Table I - Individual				
	Numerator	**Denominator**	**MLR**	**Rebates**
As Filed	$589,448,287	$725,398,155	81.3%	$0
As Recalculated	$588,633,840	$725,398,155	81.1%	$0
Difference	($814,447)	$0	(0.2%)	$0

Table II - Large Group				
	Numerator	**Denominator**	**MLR**	**Rebates**
As Filed	$1,185,631,404	$1,413,351,194	83.9%	$5,349,271
As Recalculated	$1,189,626,923	$1,413,306,300	84.2%	$3,890,237
Difference	$3,995,519	($44,894)	0.3%	($1,459,034)

Table III - Student Health Plans				
	Numerator	**Denominator**	**MLR**	**Rebates**
As Filed	$85,826,821	$91,395,422	95.1%	$0
As Recalculated	$85,663,899	$91,395,422	95.0%	$0
Difference	($162,922)	$0	(0.1%)	$0

1 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 45 CFR §158.230.

COMMENTS ON MEDICAL LOSS RATIO

Market Classification

According to Title 45 U.S. Code of Federal Regulations (CFR) §158.103, the applicable definitions of the individual, small group, and large group market according to Section 2791(e) of the Federal Public Health Service (PHS) Act are codified and applicable to the MLR calculation. 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. In addition, according to Title 45 CFR §158.120, the Medical Loss Ratio (MLR) report must aggregate data for each entity licensed within the state where each health care coverage contract was issued, aggregated separately for the individual, small group, and large group market.

Samples of individual and group policies were reviewed to verify that the appropriate group size and market classification determination were applied by the Company in accordance with Title 45 CFR §158.103. It was determined that the Company improperly reported the experience from a repatriation of remains and medical evacuation expense policy with its health insurance coverage subject to Title 45 CFR §158, rather than in the Other Health columns as required, on the 2020, 2021, and 2022 MLR Annual Reporting Forms. As coverage for these limited-scope products is offered on a stand-alone and optional basis to group policyholders, they are considered excepted benefits under section 2791(c)(2) of the PHS Act, and are not subject to Title 45 CFR §158. According to the 2022 MLR Annual Reporting Form Filing Instructions, health plan arrangements that are not group *or* individual health insurance coverage provided by a health insurance issuer should be reported in the Other Health columns on the MLR Annual Reporting Form. As a result, the Company overstated its three-year aggregate earned premium by $44,894 in the large group market on its 2022 MLR Annual Reporting Form.

It is recommended that the Company adopt and implement policies and procedures to ensure that all amounts are properly reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions, including ensuring

accurate reporting of non-group or individual health insurance coverage in the Other Health columns on the MLR Annual Reporting Form and Title 45 CFR §158.103.

With the exception of the non-health policy included as part of the large group market, as noted above, the samples of all policies, claims, and other items tested during the examination appeared to be correctly assigned to the appropriate state, markets and lines of business in accordance with Title 45 CFR §158.103 and §158.120.

Medical Loss Ratio Numerator

According to Title 45 CFR §158.221(b), the numerator of the MLR calculation comprises incurred claims, as defined in Title 45 CFR §158.140, plus expenditures for activities that improve healthcare quality, as defined in Title 45 CFR §158.150 and §158.151. The factors used in the numerator calculation were reviewed, and listed as follows:

Incurred Claims

The Company made several errors when calculating the amount of pharmacy claims paid to its Pharmacy Benefit Manager (PBM), as reported as part of paid claims on its 2020, 2021, and 2022 MLR Annual Reporting Forms.

According to Title 45 CFR §158.140(b)(3)(ii), if a third-party vendor reimburses the provider at one amount but bills the issuer a higher amount to cover its network development, utilization management costs, and profits, then the amount that exceeds the reimbursement to the provider (i.e., the pharmacy) must not be included in incurred claims.

The Company incorrectly determined the aggregate amount paid to its PBM for pharmacy claims that exceeded the total amount the PBM paid to pharmacies for enrollee prescriptions (i.e., the third-party margin, or “spread”). As a result, the Company failed to deduct from its paid claims, the total amount of the third-party margin that it paid to its PBM for pharmacy benefit-related services. The Company improperly removed from the amount of third-party margin that it paid to its PBM, a portion that it attributed to the aggregate amount of enrollee cost-sharing, thus decreasing the amount of margin dollars

removed from paid claims. As a result of this error, the Company's amount reported for prescription drug claims was overstated. The Company should deduct the entire margin amount that it paid to its PBM from paid claims, as enrollee cost-sharing does not in any way change the total amount the pharmacy provider is reimbursed or affect the third-party margin paid to the Company's PBM, and therefore should not be considered in the MLR calculation.

The Company also incorrectly included in its calculation of the third-party margin that it deducted from its paid claims the estimated cost of certain services that the PBM provided to the Company. The Company's PBM provides a number of clinical and quality services, such as safety monitoring, drug utilization review, and dose optimization, at no additional direct cost to the Company. According to the PBM, the third-party margin it charges for the Company's prescription drugs, in part, compensates it for these services. Therefore, these amounts were removed from the Company's calculation of the third-party margin, and correspondingly, not deducted from incurred claims. While we agree that the Company should have deducted the estimated cost of these services, the Company also incorrectly removed from the third-party margin calculation the estimated cost for other clinical and quality services that were billed separately by the PBM and which were already reported as Quality Improvement Activities (QIA). Therefore, the estimated cost of these services, equal to approximately 50.2% of the total cost of the clinical and quality services, should not have been removed from the third-party margin calculation.

In calculating the third-party margin to be removed from the large group market, the Company incorrectly included paid claims for one group that operated under a separate PBM agreement that uses pass-through pricing for prescription drugs, meaning that PBM bills the Company the same amount that it reimburses the pharmacies. Therefore, there is no third-party margin paid to the PBM for the claims associated with this group. However, as a result of incorrectly including the paid claims from this group in the calculation, the Company overstated the third-party margin removed from incurred claims in the large group market, and correspondingly, understated its incurred claims by the same amount.

Finally, the Company improperly included prescription drug costs incurred for enrollees who were not covered by policies it issued, to calculate and remove from paid claims the average third-party margin paid to its PBM, when it should have only used the prescription drug costs incurred for its enrollees. According to Title 45 CFR §158.110(a), an issuer must submit to the Secretary a report that includes premium revenue and expenses related to the group and individual health insurance coverage that the issuer issued. The Company indicated that it does not have access to the necessary information to calculate the third-party margin at the legal entity level, and therefore improperly used the aggregate prescription drug costs incurred for enrollees covered by all affiliated Elevance entities. As a result of the inability to determine the third-party margin paid to the PBM specific only to the Company's enrollees, we were unable to determine the amount of adjustment necessary for this error.

As a result of the net effect of the errors noted above, the Company overstated the three-year aggregate incurred claims reported on its 2022 MLR Annual Reporting Form by $814,447 in the individual market and $162,922 in the student health market, and understated the three-year aggregate incurred claims by $3,995,519 in the large group market. The breakdown of the misstatement per reporting year is presented in the table below.

Market / Third-Party Margin Difference	2020	2021	2022	Three-year Aggregate
Individual	$ 96,650	$ 359,266	$ 358,531	$ 814,447
Large Group/National/FEP	(241,525)	(1,720,737)	(2,033,257)	(3,995,519)
Student Health	8,249	66,107	88,566	162,922

It is recommended that the Company implement necessary processes and procedures to ensure it properly and accurately calculates and reports incurred claims on its MLR Annual Reporting Form, in accordance with Title 45 CFR §158.140, including properly calculating and removing from paid claims the full amount of prescription drug costs in excess of the amounts paid to pharmacies. It is also recommended that all amounts be properly and accurately reported in its MLR Annual Reporting Form in accordance with Title 45 CFR §158.110(a), including properly and accurately calculating and removing

from paid claims the third-party margin paid to its PBM using only the prescription drug costs incurred for its enrollees.

Quality Improvement Activities

Quality improvement activities were reviewed for the accuracy and reasonableness to ensure conformity with the definition of Healthcare Quality Improvement Activities related expenses ("QIA"), as defined by Title 45 CFR §158.150 and §158.151, and to confirm that the allocation methodology used is reasonable and complies with the requirements set forth in Title 45 CFR §158.170. Based on the review, the Company's allocation methodology and health care quality improvement expenses reported in the MLR numerator are reasonable and conform 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 factors used in the denominator calculation were reviewed and discussed as follows:

Premium Revenue - Earned Premiums

As defined by Title 45 CFR §158.130, earned premium includes all monies paid by a policyholder or subscriber as a condition of receiving coverage from the insurer. A sample of premium transactions were reviewed to verify the accuracy and appropriateness of the earned premium, including the verification of the data used by the Company to calculate earned premium and the validation of a sample of policy premiums reported by the Company.

It was determined that the Company improperly reported the experience from a repatriation of remains and medical evacuation expense policy with its health insurance coverage subject to Title 45 CFR §158, rather than in the Other Health column on the 2020, 2021, and 2022 MLR Annual Reporting Forms. As coverage for these limited-scope

products is offered on a stand-alone and optional basis to group policyholders, they are considered excepted benefits under section 2791(c)(2) of the PHS Act and are not subject to Title 45 CFR §158. According to the MLR Annual Reporting Form Filing Instructions, repatriation of remains and medical evacuation expense coverage should be reported as Other Health on the MLR Annual Reporting Form. As a result, the Company overstated the three-year aggregate earned premium in the large group market by $44,894 on its 2022 MLR Annual Reporting Form.

It is recommended that the Company adopt and implement policies and procedures to ensure that all earned premiums are properly reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions and Title 45 CFR §158.

Federal and State Taxes, Licensing and Regulatory Fees

Title 45 CFR § 158.161, 158.162, and 158.170 provide guidance on the reporting of federal and state taxes, licensing, and regulatory fees, including the reasonableness of the allocation methodology, as part of the denominator. A review of the Company's federal and state taxes, licensing, and regulatory fees, along with the allocation methodology on the 2022 MLR Annual Reporting Form, determined that the Company complied with the requirement.

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 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 1.2% was calculated in accordance with Title 45 CFR §158.232.

The Company did not report an average deductible in any market, therefore, a deductible factor of 1.0 was properly reported 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, the Company appropriately calculated the credibility-adjusted MLRs for each market segment.

REBATE DISBURSEMENT AND NOTICE

According to Title 45 of the U.S. Code of Federal Regulations (CFR) §158.250(a) and (b), a Rebate Notice is required when the Medical Loss Ratio (MLR) does not exceed the applicable minimum percentage. Based on our review, the Company's 2022 MLR exceeded the minimum percentage for the individual and student health plan market, and no rebates were issued.

The Company adopted policies and procedures for locating and delivering rebates that were inconsistent with the requirements in Title 45 CFR §158.244, which requires an insurer to make a good faith effort to locate and deliver unclaimed rebates to enrollees. The Company did not send any follow-up letters to enrollees with unclaimed rebates below the applicable de minimis threshold for each market ($5 for the individual market and $20 for the group markets).

According to Title 45 CFR §158.250(a), at the time any rebate of premium is provided to a group health plan, the issuer must provide each policyholder who receives a rebate, and each subscriber whose policyholder receives a rebate, certain required information. The Company failed to provide a Rebate Notice to the subscribers of 9 large group policyholders and 84 COBRA recipients for which an MLR rebate was paid related to the 2022 MLR reporting year, as required by Title 45 CFR §158.250(a). The Company properly provided Rebate Notices to the policyholders, but failed to provide notices to the subscribers. There was no impact on the MLR calculation as a result of this error.

It is recommended that the Company adopt and implement procedures to ensure a good faith effort is made to locate and deliver all unclaimed rebates to enrollees in accordance with the requirements of Title 45 CFR §158.244, regardless of the rebate amount. Additionally, it is recommended that the Company implement procedures to ensure the timely issuance of Rebate Notices to both policyholders and subscribers who receive rebates, in accordance with Title 45 CFR §158.250.

Based on the procedures performed, other than the failure to make a good faith effort to locate and deliver all unclaimed rebates, and to properly issue Rebate Notices, no additional findings related to the Rebate Notices were noted.

REBATE PAYMENTS ON SOLVENCY

According to Title 45 CFR §158.270(a), rebate payments having any adverse impact to the Company's Risk-Based Capital (RBC) level require notification by the California Department of Insurance to the Secretary of the U.S. Department of Health & Human Services (HHS). Based on our review, neither the rebates issued by the Company for the large group market, nor the additional rebates due as a result of the 2022 examination, had an adverse impact on the RBC level of the Company 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 4): It is recommended that the Company make necessary adjustment to the calculation to ensure future compliance with Title 45 U.S. Code of Federal Regulations (CFR) §158.210(a).

Market Classification (Page 5): It is recommended that the Company adopt and implement policies and procedures to ensure that all amounts are properly reported in its Medical Loss Ratio (MLR) Annual Reporting Form in accordance with the MLR Annual

Reporting Form Filing Instructions and Title 45 U.S. CFR §158.103, including ensuring accurate reporting of non-group or individual health insurance coverage in the Other Health columns on the MLR Annual Reporting Form.

Incurred Claims (Page 8): It is recommended that the Company implement policies and procedures to ensure accurate reporting of incurred claims in accordance with Title 45 CFR §158.140, including ensuring that amounts paid to its Pharmacy Benefit Manager (PBM) in excess of the cost of prescription drugs paid to pharmacies for its enrollees are not included in incurred claims, and that it properly and accurately calculates the third-party margin paid to its PBM, in accordance with Title 45 CFR §158.110 and §158.120.

Premium Revenue - Earned Premiums (Page 9): It is recommended that the Company adopt and implement policies and procedures to ensure that all earned premiums are properly reported in its MLR Annual Reporting Form in accordance with the MLR Annual Reporting Form Filing Instructions and Title 45 CFR §158.

Rebate Disbursement and Notice (Page 11): It is recommended that the Company adopt and implement procedures to ensure a good faith effort is made to locate and deliver all unclaimed rebates to enrollees in accordance with the requirements of Title 45 CFR §158.244, regardless of the rebate amount. Additionally, it is recommended that the Company implement procedures to ensure the timely issuance of Rebate Notices to both policyholders and subscribers who receive rebates, in accordance with Title 45 CFR §158.250.

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 min-med large group market experience for Medical Loss Ratio reporting purposes. The Company has complied with the recommendation.

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,

Craig Moore Digitally signed by Craig Moore
Date: 2025.09.29 17:12:32 -04'00'

Craig Moore, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California

Fan, Vivien Digitally signed by Fan, Vivien
Date: 2025.09.29 14:58:51 -07'00'

Vivien Fan, CFE
Bureau Chief, LA-II
Department of Insurance
State of California

APPENDIX[2]

Individual Market			
Medical Loss Ratio Components	**As Filed**	**Exam Adjustments**	**As Recalculated**
Adjusted Incurred Claims	$582,709,243	($814,447)	$581,894,796
Plus: Quality Improvement Expenses	$6,739,044	$0	$6,739,044
MLR Numerator	**$589,448,287**	**($814,447)**	**$588,633,840**
Premium Earned	$762,942,140	$0	$762,942,140
Less: Federal & State Taxes and Licensing/Regulatory Fees	$37,543,985	$0	$37,543,985
MLR Denominator	**$725,398,155**	**$0**	**$725,398,155**
Preliminary MLR	81.3%	(0.2%)	81.1%
Credibility Adjustment	0.0%	0.0%	0.0%
Credibility–Adjusted MLR	**81.3%**	**(0.2%)**	81.1%
MLR Standard	80.0%		80.0%
Rebate Amount	**$0**	**$0**	**$0**

2 All amounts represent the three-year aggregate total, including experience from 2020, 2021, and 2022 reporting year.

Large Group Market			
MLR Components	**As Filed**	**Exam Adjustments**	**As Recalculated**
Adjusted Incurred Claims	$1,172,803,534	$3,995,519	$1,176,799,053
Plus: Quality Improvement Expenses	$12,827,870	$0	$12,827,870
MLR Numerator	**$1,185,631,404**	**$3,995,519**	**$1,189,626,923**
Premium Earned	$1,460,330,678	($44,894)	$1,460,285,784
Less: Federal & State Taxes and Licensing/Regulatory Fees	$46,979,484	$0	$46,979,484
MLR Denominator	**$1,413,351,194**	**($44,894)**	**$1,413,306,300**
Preliminary MLR	83.9%	0.3%	84.2%
Credibility Adjustment	0.0%	0.0%	0.0%
Credibility–Adjusted MLR	**83.9%**	**0.3%**	**84.2%**
MLR Standard	85.0%		85.0%
Rebate Amount	**$5,349,271**	**($1,459,034)**	**$3,890,237**

Student Health Plans Market			
MLR Components	**As Filed**	**Exam Adjustments**	**As Recalculated**
Adjusted Incurred Claims	$84,606,037	($162,922)	$84,443,115
Plus: Quality Improvement Expenses	$1,220,784	$0	$1,220,784
MLR Numerator	**$85,826,821**	**($162,922)**	**$85,663,899**
Premium Earned	$93,102,691	$0	$93,102,691
Less: Federal & State Taxes and Licensing/Regulatory Fees	$1,707,269	$0	$1,707,269
MLR Denominator	**$91,395,422**	**$0**	**$91,395,422**
Preliminary MLR	93.9%	(0.1%)	93.8%
Credibility Adjustment	1.2%	0.0%	1.2%
Credibility–Adjusted MLR	**95.1%**	**(0.1%)**	**95.0%**
MLR Standard	80.0%		80.0%
Rebate Amount	**$0**	**$0**	**$0**