REPORT OF MEDICAL LOSS RATIO EXAMINATION

OF THE

KAISER PERMANENTE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

Dave Jones

Insurance Commissioner

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San Francisco, California
July 3, 2013

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

Kaiser Permanente Insurance Company

(hereinafter also referred to as the Company) at its home office located at 300 Lakeside Drive, 13th Floor, Oakland, California 94612.

SCOPE OF EXAMINATION

We have performed a Medical Loss Ratio (MLR) examination of Kaiser Permanente Insurance 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 (PHSA). Section 2718 of the federal PHSA 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, 2011.

We examined the MLR Annual Reporting Form as completed by the Company and submitted to U.S. Department of Health and Human Services (HHS) for the 2011 MLR reporting year, to ensure the validity of the underlying data, accuracy of the rebate 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 the 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 the 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 member of an insurance holding company system of which Kaiser Foundation Health Plan, Inc. (KFHP) is the ultimate controlling entity. KFHP owns 50% of the voting stock of the Company. The remaining 50% of the Company’s voting stock is owned by eight independent Permanente Medical Groups as follows: The Permanente Medical Group, Inc.; Southern California Permanente Medical Group; Hawaii Permanente Medical Group, Inc.; Colorado Permanente Medical Group, P.C.; The Southeast Permanente Medical Group, Inc.; Northwest Permanente, P.C.; Ohio Permanente Medical Group, Inc.; and Mid-Atlantic Permanente Medical Group, P.C.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact business in the states of California, Colorado, Georgia, Hawaii, Kansas, Maryland, Missouri, Ohio, Oregon, South Carolina, Virginia, Washington, and the District of Columbia. Direct premiums written in 2011 totaled $272,151,593, of which California accounted for 60.1%, Ohio 11.6%, Georgia 7.5%, Colorado 7.8%, Virginia 4.9%, Maryland 3.3%, Hawaii 2.9%, District of Columbia 1.8%, and Oregon 0.2%.

The Company jointly markets its indemnity health and dental products alongside Kaiser Foundation Health Plan, Inc.’s (KFHP) prepaid health care plans. It uses the same sales force employed by KFHP. The Company offers point-of-service; preferred provider organization option; out-of-area health; exclusive provider organization product; and dental coverage. The point-of-service product is a single benefit product with two elements: health care services through prepaid group coverage to be provided by KFHP and indemnity health care coverage through a policy issued by the Company. The preferred provider organization option offers the members within an employer group a choice of health care services through prepaid group coverage to be provided by KFHP, or indemnity health care coverage through an insurance policy issued by the Company. The Company's out-of-area product consists of indemnity health care coverage to subscribers who do not live in KFHP's service area, but live in the United States. The Company's exclusive provider organization product is an individually underwritten group plan providing exclusive benefits and services that utilizes KFHP's provider network. KFHP providers bill the Company on a fee-for-services basis for medical and surgical services provided to the exclusive provider organization.

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, 2012 for the 2011 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. Title 45 CFR §158.210(b) and (c) requires that an issuer must provide a rebate to enrollees if the issuer has an MLR of less than 80% for the small group and the individual markets. The Company's MLR and rebate calculations from the 2011 MLR Annual Reporting Form, Part 5 (California only) are as follows:

MLR Components	Individual	Small Group	Large Group	Notes
Adjusted Incurred Claims	$53,824,508	$5,416,678	$28,255,885	
Plus: Quality Improvement Expenses	$0	$0	$0	
MLR Numerator	$53,824,508	$5,416,678	$28,255,885	(1)
Premium Earned	$71,766,010	$6,414,442	$24,919,627	
Less: Federal & State Taxes and Licensing or Regulatory Fees	$2,507,410	$270,869	$392,670	
MLR Denominator	$69,258,600	$6,143,573	$24,526,957	(2)
Preliminary MLR Before Credibility Adjustment	77.7%	Non-Credible	115.2%	
Credibility Adjustment	1.9%	N/A	4.7%	(3)
Credibility Adjusted MLR	79.6%	Non-Credible	119.9%	(4)
Rebate Amount	$277,034	$0	$0	(5)

COMMENTS ON MEDICAL LOSS RATIO CALCULATION

(1) Medical Loss Ratio Numerator

According to Title 45 of the U.S. Code of Federal Regulation (CFR) §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 Company's data used to calculate the adjusted incurred claims without exception. The Company did not report any quality improvement expenses. As a result, no review was required. Based on our review, the Company included appropriate adjusted incurred claims in the MLR numerator.

(2) Medical Loss Ratio Denominator

According to Title 45 CFR §158.221(c), the denominator of 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 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 individual and large group markets were partially credible while the small group market was non-credible. The components used to calculate the base credibility and deductible factors were reviewed without exceptions. Based on our review, the Company appropriately calculated and applied 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, the Company appropriately calculated the MLR 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 MLR exceeded the minimum percentage for the large and small group markets, but not the individual market. The Company issued rebates totaling $277,034 for the individual market. The Company appropriately calculated and timely issued rebates for their individual market enrollees.

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 MLR do not exceed the minimum percentage. The Company's MLR did not exceed the minimum percentage for the individual segment enrollees. Based on our review, the Company issued rebate notices appropriately and timely.

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 Medical Loss Ratio (MLR) information is required when the MLR exceeds the minimum standard. The Company's MLR exceeded the minimum standard for the small and large group markets. Based on our review, the Company appropriately issued MLR information notices.

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 rebates did not have an adverse impact on the RBC level that would warrant notification to the Secretary of HHS.

SUMMARY OF COMMENTS, FINDINGS AND RECOMMENDATIONS

Current 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,

Kyo Chu, CFE
Examiner-In-Charge
Department of Insurance
State of California