Final

Report on the

Medical Loss Ratio Examination

of

Group Health Options, Inc.
(Seattle, Washington)

for the

2013 MLR Reporting Year

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information & Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201

CMS
CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR CONSUMER INFORMATION & INSURANCE OVERSIGHT

OVERSIGHT GROUP

February 25, 2020

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 Group Health Options, Inc. (the Company) for the 2013 reporting year, including 2013, 2012, and 2011 data reported on that form. Following an exit conference with the Company, the Company responded to each Finding and Corrective Action. This final report, which will be made publicly available, incorporates the Company's responses and CCIIO's evaluation of these responses.

Christina A Whitefield

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U.S. Department of Health & Human Services

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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 Group Health Options (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2013 MLR Annual Reporting Form 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 an impact on its rebate liability in any of the states or markets in which it operated. We direct the Company to implement the necessary corrective actions to address the findings detailed in this report to comply with the requirements of 45 CFR Part 158, including ensuring timely filing of the MLR Annual Reporting Form, obtaining adequate information to accurately determine group size and market classification of policies, accurately aggregating incurred claims, and properly disclosing tax and regulatory fee allocation methods.

II. Scope of Examination

CCIIO examined the Company's 2013 MLR Annual Reporting Form to determine compliance with 45 CFR Part 158. Title 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 Patient Protection and Affordable Care Act (PPACA), generally requires health insurance issuers to submit to the Secretary of the U.S. Department of Health & Human Services (HHS) an annual report concerning premium revenue and expenses related to group and individual health insurance coverage issued. The federal MLR is the proportion of earned premium, less certain taxes and regulatory fees, expended by an issuer on clinical services and activities that improve health care quality in a given state and market, after adjustments for the credibility of the experience or other factors, where applicable, and calculated using the average of three consecutive years of data. Section 2718 also requires an issuer 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).

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, 2012, and 2013 experience and claims run-out through March 31, 2014. We conducted the 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, Corrective Actions, and Company Responses section of this Report. The Company's corrective actions were not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's reply 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 Findings

Page	Key Findings
6, 7, 8	**Failure to submit an MLR form in the manner prescribed by the Secretary as required by §158.110 –** The Company did not file its 2013 MLR Annual Reporting Form on a timely basis, as required by §158.110(b). In addition, the Company failed to include taxes and regulatory fees for the self-insured plans for which it provided administrative services in the nationwide grand total of its 2013 MLR Annual Reporting Form. The Company also failed to disclose its tax and regulatory fee allocation methodology on the 2013 MLR Annual Reporting Form.
6	**Failure to employ standards consistent with the definitions in §158.103 to correctly determine the size of group policyholders –** The Company did not obtain the average number of employees from each group policyholder at the time of initial application or policy renewal and therefore could not correctly determine each group's size and market classification.
7	**Failure to properly report prior year incurred claims as required by §158.220(b) –** The Company omitted its 2011 incurred claims for the Idaho small group market on the 2013 MLR Annual Reporting Form, resulting in an understatement of the Company's three-year aggregated incurred claims reported on the 2013 MLR Annual Reporting Form by $147,389 in the small group market. This finding did not impact the Company's MLR for this state market.
8	**Failure to comply with the MLR notification requirements set forth in §158.251 –** The Company failed to provide policyholders and subscribers a notice informing them that it met or exceeded the applicable MLR standard for 2011.

Due to the lack of adequate documentation supporting group size and market classification determinations, we cannot conclusively assess the impact on the Company's MLRs or rebate liability. To the extent the findings could be quantified, they did not result in a change to the Company's reported MLRs in any states or markets in which it operated. In the Idaho small group market, the Company reported fewer than 1,000 life-years during the three-year aggregation period and is therefore presumed to meet or exceed the applicable MLR standard, in accordance with §158.230(d).

The following tables show the three-year aggregated numerator, denominator, credibility-adjusted MLR, and rebate liability for 2013. The amounts in the "As Recalculated" rows reflect an adjustment to account for the incorrect reporting of prior year incurred claims.

Recalculated MLRs and Rebates for the Individual, Small Group, and Large Group Markets for the 2013 Reporting Year[1]

Idaho

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$3,927	$165,330	80.0%	$0
As Recalculated	$151,316	$165,330	80.0%	$0
Difference	$147,389	$0	0.0%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$25,131,101	$27,469,026	94.8%	$0
As Recalculated	$25,131,101	$27,469,026	94.8%	$0
Difference	$0	$0	0.0%	$0

Washington

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$313,692,118	$349,142,772	89.8%	$0
As Recalculated	$313,692,118	$349,142,772	89.8%	$0
Difference	$0	$0	0.0%	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$271,821,556	$308,946,239	88.7%	$0
As Recalculated	$271,821,556	$308,946,239	88.7%	$0
Difference	$0	$0	0.0%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$1,859,898,829	$2,065,956,455	90.0%	$0
As Recalculated	$1,859,898,829	$2,065,956,455	90.0%	$0
Difference	$0	$0	0.0%	$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 §158.230.

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit health care service corporation which operates in the states of Washington and Idaho. The Company sells point-of-service (POS) and Preferred Provider Organization (PPO) health insurance coverage and Medicare Advantage policies.

During the 2011, 2012, and 2013 MLR reporting years, the Company operated in the individual, 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 170,410 covered lives and $883,108,835 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158, and a total of 199,653 covered lives and $912,707,336 in direct earned premium from all health lines of business. The Company's only line of business not subject to the MLR regulation at 45 CFR Part 158 was Medicare Advantage.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2013 were:

Officers

Name	Title
Scott Elliot Armstrong	President
Laura Mae Sandstrom	Vice President
Barbara Ann Belt-Lloyd	Treasurer
Breton Clark Myers	Assistant Treasurer
Rick Dale Woods	Secretary
Sarah Barian Yates	Assistant Secretary
Porsche Everson	Chair, Board of Directors
Susan Joy Byington	Vice Chair, Board of Directors

Directors

Name

Katherine Bell
Susan Joy Byington
Porsche Everson
Ruta Elma Fanning
Leo Francis Greenawalt Jr.
Harry Harrison Jr.
Phillip Jeffrey Hass
Jennifer Ann Joly

Name
Robert Joel Margulis
Dorothy Anne Ruzicki
Robert Alexander Watt

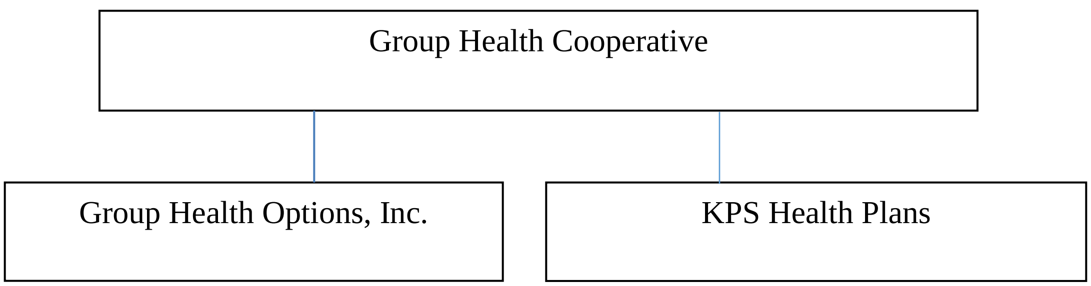
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2013 MLR Annual Reporting Form were:

Name	**Title**
Rick Dale Woods, Sr.	CEO Attester
Robert O'Brien, Jr.	CFO Attester

C. Ownership

The Company is a wholly-owned subsidiary of Group Health Cooperative (GHC), a Washington nonprofit corporation.

Group Health Options, Inc.
Organizational Chart[2] 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. A Medical Service Agreement with its parent, GHC, to provide comprehensive, covered healthcare services to the Company's enrollees.
2. An Administrative Service Agreement between the Company and GHC for administrative support for the Company's Medicare Advantage program.

[2] This is an excerpt from an organization chart provided by the Company and only includes companies pertinent to the MLR examination.

E. Reinsurance

During 2011, 2012 and 2013, the Company did not have any assumed or ceded reinsurance agreements in place.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 320 Westlake Ave. N., Suite 100, Seattle, Washington 98109-5233. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

As noted below, the Company did not obtain accurate information or maintain documentation regarding the employee count of group policyholders, which is necessary to determine group size and market classification.

VI. Examination Results

Except as noted in this report, based on the procedures performed, nothing came to our attention that would indicate that the Company's 2011, 2012, and 2013 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. However, the Company filed its 2013 MLR Annual Reporting Form two days after the June 1, 2014 filing deadline in §158.110(b). The 2011 and 2012 MLR Annual Reporting Forms were filed by or before the required due date. During 2011, 2012, and 2013, the Company reported that it met or exceeded the MLR standard in all of its states and markets and therefore did not pay rebates to its enrollees.

Based on the errors found during the examination that could be quantified, the MLRs for the 2013 MLR reporting year were recalculated but remained above the applicable MLR standards and therefore did not result in rebates being owed. However, due to the Company's lack of adequate documentation to support its group size and market classification determinations, we cannot at this time conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates.

A. MLR Data

Market Classification Policies and Procedures

Incorrect Procedures for Determining Group Size and Market Classification
The Company adopted policies and procedures for determining group size and market classification that are inconsistent with the definitions in §158.103 applicable to the 2011-2013 reporting years. Section 158.103 employs the applicable definitions of Large Employer, Large Group Market, Small Employer, and Small Group Market in section 2791(e) of the 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*. The Company did not obtain the necessary information from group policyholders to determine employer size in accordance with this definition, and therefore may have incorrectly determined the market classification for group policies in the period covered by this examination.

The documentation available to the examiners consisted of initial policy applications and annual policyholder surveys that requested the total number of employees, and renewal packets completed by policyholders that also requested the total number of employees at the time of renewal. The Company used this information to confirm its previously designated group size determination, which was based on the number of employees enrolled in the employer's group plan or in some cases the total number of employees at the time of renewal, rather than the total average number of employees in the preceding year.

However, and despite the fact that the Company employed standards that were inconsistent with the definitions in §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.

Aggregation

Other than the possibly incorrect group size and market classification determinations noted above, based on procedures performed, nothing came to our attention that would indicate that the samples of policies, claims, and other items tested during the examination were not correctly assigned to the appropriate markets and lines of business, in accordance with §158.120.

Incurred Claims

The Company incorrectly omitted 2011 incurred claims from the Idaho small group market on the 2013 MLR Annual Reporting Form. (The 2011 incurred claims amount was properly reported on the 2011 MLR Annual Reporting Form.) Section 158.220(b) provides that the MLR is calculated by aggregating the data for the MLR reporting year and two prior MLR reporting years. Consequently, the Company understated its three-year aggregated incurred claims reported on the 2013 MLR Annual Reporting Form by $147,389 in the Idaho small group market. This finding did not affect the MLR as the Company reported fewer than 1,000 life-years during the three-year aggregation period in the Idaho small group market and is therefore presumed to meet or exceed the applicable MLR standard, in accordance with §158.230(d).

Other than the possibly incorrect group size and market classification determinations, and the reporting error noted above, based upon the procedures performed, including the validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing additional came to our attention that would indicate that the incurred claims were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts

The Company did not report any 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 (QIA)
Other than the possibly incorrect group size and market classification determinations noted above, based upon procedures performed, nothing came to our attention that would indicate that the programs and expenses for QIA that the Company reported did not meet the definition of a QIA in §158.150, or were not reasonably allocated among the Company's states and markets as required by §158.170.

Earned Premium
Other than the possibly incorrect group size and market classification determinations noted above, based upon procedures performed, nothing came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying 2011, 2012, and 2013 premium as reported on the Company's 2013 MLR Annual Reporting Form were not in compliance with §158.130.

Taxes
On its 2013 MLR Annual Reporting Form, the Company failed to report the method used to allocate its taxes and regulatory fees to each state and market, as required by §158.170 and the MLR Annual Reporting Form Filing Instructions. Based on a review of the documentation provided, the Company used taxable income to allocate its federal taxes, which the examiners deemed to be in compliance with §158.170. In addition, on its nationwide grand total 2013 MLR Annual Reporting Form, the Company failed to report taxes and regulatory fees for the self-funded plans for which the Company provided administrative services only, although the amounts were reported correctly on the 2013 MLR Annual Reporting Form filed for the state of Washington. These findings did not impact the MLR calculations.

Other than the possibly incorrect group size and market classification determinations and the reporting omissions noted above, based upon the procedures performed, nothing additional came to our attention that would indicate that the taxes and regulatory fees excluded from 2011, 2012, and 2013 earned premium on the Company's 2013 MLR Annual Reporting Form did not comply with §158.161 and §158.162, or were not accurately reported and reasonably allocated among the Company's states and markets, as required by §158.170.

B. Credibility-Adjusted MLR and Rebate Amount

Based upon procedures performed, the Company used the correct formula to calculate the credibility adjustment, in accordance with §§158.230-158.232. The Company's final, credibility-adjusted MLRs were calculated using the correct formula in accordance with 45 CFR Part 158 and the applicable MLR Annual Reporting Form Filing Instructions. Based on the Company's reported final MLRs, which exceeded the applicable standards in the individual, small group, and large group markets, the Company used correct procedures to determine that no rebates were due for 2011, 2012, or 2013.

C. Rebate Disbursement and Notice

According to its 2011, 2012, and 2013 MLR Annual Reporting Forms, the Company did not report any rebates owed in any of the states or markets in which it operated as a result of the

MLR calculations. Based upon the procedures performed, the Company failed to issue the 2011 Notice (of no rebate) as required by §158.251, but 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 CCIIO nor any state regulatory entity has previously performed an examination of the Company's MLR processes and reporting. The Washington State Office of the Insurance Commissioner performed a financial examination of the Company in 2014 covering the period January 1, 2009 through December 31, 2013. The financial examination resulted in six findings, none of which impact the Company's federal MLR calculation or reporting.

VII. Subsequent Events

The Company is required to inform CCIIO of any subsequent events that may affect the currently attested 2013 MLR Annual Reporting Form. On January 13, 2017, the Company was acquired by Kaiser Permanente. No other post-December 31, 2013 significant events were brought to CCIIO's attention.

VIII. Conclusion, Corrective Actions and Company Responses

CCIIO examined Group Health Options' 2013 MLR Annual Reporting Form to assess 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 2013 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2013 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158.

Based on the cumulative effect of the findings that could be quantified, it is estimated that the Company's recalculated MLRs did not change in any states or markets in which it operated, resulting in no rebates being owed. However, due to the lack of adequate documentation to support its group size and market classification determinations, we cannot at this time conclusively assess whether there were additional errors that could impact the Company's MLRs or rebates in any of the states or markets in which it operated.

As a result of this examination, CCIIO directed the Company to implement the following corrective actions:

Corrective Action #1

The Company must adopt and implement procedures to ensure it completes and submits the MLR Annual Reporting Form in accordance with §158.110 and the applicable MLR Annual Reporting Form Filing Instructions, including but not limited to ensuring that the MLR Annual Reporting Form is filed on a timely basis, properly reporting federal and state taxes for the self-insured plans at the nationwide grand total level, and disclosing the tax and regulatory fee allocation methodology.

Company Response
"The Company agrees that filings were one day late, as June 1, 2014 fell on a Sunday. The filing delay was a result of changes in management and issues with Company CFO attesters being granted access to HIOS. Subsequently, CMS changed the attestation process to allow for pdf documentation of Company CEO and CFO attestations. The Company has developed and implemented a process to ensure timely execution and upload of the attestations.

The Company provided explanations with regards to several components of the taxes included in Section 3 Federal and State Taxes and Licensing or Regulatory Fees. The explanations provided include the allocation methodology as either enrollment, incurred claims or earned premiums. While this may not explicitly state the market and state allocations, it can be inferred based on the explanations that are given. The Company will revise its explanations in future MLR filings to explicitly describe how allocations are made to markets and states.

The Company confirms that the Part 1 Summary of Data tab of the Grand Total file of the Group Health Options, Inc. 2011medical loss ratio filing inadvertently excluded Section 3 Federal and State Taxes and Licensing or Regulatory Fees amounts that should have been reported in the "Uninsured Plans" column. As the Uninsured Plans are not subject to an MLR, there was no impact to the MLR rebate calculation. Subsequent to 2013 filings, and as part of Kaiser Permanente's 2017 acquisition of Group Health Cooperative and its subsidiaries, the Company has adopted the Kaiser Permanente medical loss ratio processes which provides an additional level of review and oversight by a team dedicated wholly to the review and filings related to medical loss ratio reporting."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

Corrective Action #2
The Company must 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, consistent with the definitions in §158.103 and section 2791(e) 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 number of employees for the calendar year preceding the coverage effective (or renewal) date. Alternatively, for the 2017 and later reporting years, the Company may elect to use the applicable state employee counting method, unless the state method does not take into account non-full-time employees, in which case the full-time equivalent method described in section 4980H(c)(2) of the Internal Revenue Code should be used. The Company must adopt and implement procedures to ensure that it obtains and maintains accurate information from its

employer groups in order to determine the correct group size and market classification of its group policies under the applicable employee counting method.

Company Response
"In January 2019 the Company implemented a new process to ensure on-going compliance with ACA Reporting Programs and to meet state and federal requirement s."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

Corrective Action #3
The Company must adopt and implement procedures to ensure it properly includes and aggregates incurred claims data for both the current and the two prior reporting years on the MLR Annual Reporting Form in accordance with the requirements of §158.220(b) and related technical guidance.

Company Response
"The Company agrees that the 2011 amounts were inadvertently omitted from Part 4 MLR and Rebate Calculation, Line 1.2 Adjusted incurred claims as of 3/31of the year following MLR reporting year of the Idaho Small Group PY2 column. The Company also agrees that Group Health Opt ions, Inc. no longer marketed/sold Small Group products in the Idaho market after 2011. Subsequent to 2013 filings, and as part of the 2017 acquisition of Group Health Cooperative and its subsidiaries, the Company has adopted the Kaiser Permanente medical loss ratio processes which provides an additional level of review and oversight by a team dedicated wholly to the review and filings related to medical loss ratio reporting."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan.

The recommendations provided in this report should be shared with and adopted by, as applicable, any affiliated entities of the Company, its parent or subsidiaries, if any, that are subject to the MLR reporting and rebate requirements of 45 CFR Part 158.

CCIIO thanks the Company and its staff for its cooperation with this examination.