Final

Report on the

Medical Loss Ratio Examination

of

HMO Louisiana, Inc.
(Baton Rouge, Louisiana)

for the

2014 MLR Reporting Year

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

OVERSIGHT GROUP

November 19, 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 HMO Louisiana, Inc. (the Company) for the 2014 reporting year, including 2014, 2013, and 2012 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 response and CCIIO's evaluation of the response.

Christina A. Whitefield

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Center for Consumer Information & Insurance Oversight
Centers for Medicare & Medicaid Services
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 2014 Medical Loss Ratio (MLR) Annual Reporting Form for HMO Louisiana, Inc. (the Company) to assess the Company's compliance with the requirements of 45 CFR Part 158. We determined that the Company's 2014 MLR Annual Reporting Form contains some elements that are not fully compliant with the requirements of 45 CFR Part 158, but that do not impact consumer rebates. We direct the Company to implement the necessary corrective actions to address the findings detailed in this report, including ensuring that quality improvement activity (QIA) expenses meet the regulatory definition of QIA and are adequately supported and accurately allocated, and accurately reporting advance payments of the premium tax credit (APTC).

The examination findings and subsequent recalculation of the Company's 2014 MLRs did not result in any changes to its reported MLRs or rebates in any of the markets in the one state in which the Company had health insurance coverage subject to 45 CFR Part 158 in effect.

II. Scope of Examination

CCIIO examined the Company's 2014 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, 2012 through December 31, 2014, including 2012, 2013, and 2014 experience and claims run-out through March 31, 2015. 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, Company Response, and CCIIO Reply section of this Report. The Company's implementation of the corrective actions was not reviewed for proof of implementation or subjected to the procedures applied during the examination. CCIIO's replies are 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 and proposed action plan for each corrective action in future MLR Annual Reporting Forms, examinations, or as otherwise may be appropriate.

III. Summary of Findings

Page	Key Findings
6	**Failure to maintain adequate documentation as required by §158.502 –** The Company did not provide sufficient evidence necessary to enable CCIIO to verify that the expenses reported as QIA met the definitions set forth in §158.150. There were no adjustments made to the Company's MLR calculations as a result of this finding.
6	**Failure to accurately allocate QIA expenses as required by §158.170 –** The Company improperly allocated certain QIA expenses to the markets subject to 45 CFR Part 158 that pertained to the Company's self-funded group health plans line of business. As a result, QIA expenses were overstated by $18,352 in the individual market, $27,425 in the small group market, and $18,845 in the large group market on its 2014 MLR Annual Reporting Form.
6	**Reporting of expenses as QIA that did not meet the definition of a QIA expense set forth in §158.150 –** The Company improperly included expenses related to a non-qualifying activity in its QIA expenses. As a result, QIA expenses were overstated by $4,737 in the individual market, $7,078 in the small group market, and $4,864 in the large group market on its 2014 MLR Annual Reporting Form.
7	**Failure to submit an MLR Annual Reporting Form in the manner prescribed by the Secretary as required by §158.110 –** The Company reported an inaccurate amount of advance payments of the premium tax credit on the 2014 MLR Annual Reporting Form. This error did not impact the MLR calculation.

These findings did not result in a change to the Company's reported MLRs in any market in the one state in which the Company operated. The three-year adjusted, aggregated numerator and denominator, credibility-adjusted MLR, and rebate for 2014 are shown in the following tables. The differences between the amounts in the "As Filed" and "As Recalculated" rows reflect the net impact of the adjustments made to remove disallowed QIA expenses.

Recalculated MLRs[1] and Rebates for the Individual, Small Group, and Large Group Markets for the 2014 Reporting Year

	Individual Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$195,306,808	$238,041,521	82.7%	$0
As Recalculated	$195,283,719	$238,041,521	82.7%	$0
Difference	($23,089)	$0	0.0%	$0

	Small Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$563,139,299	$698,935,552	80.6%	$0
As Recalculated	$563,104,796	$698,935,552	80.6%	$0
Difference	($34,503)	$0	0.0%	$0

	Large Group Market			
	Numerator	Denominator	MLR	Rebate
As Filed	$424,237,966	$493,459,024	86.0%	$0
As Recalculated	$424,214,257	$493,459,024	86.0%	$0
Difference	($23,709)	$0	0.0%	$0

IV. Company Overview

A. Description, Territory, and Plan of Operation

The Company is a for-profit insurer domiciled in the state of Louisiana. The Company sells health maintenance organization (HMO) health insurance policies to individuals and employer groups.

During the 2012, 2013, and 2014 MLR reporting years, the Company operated in the individual, small group, and large group markets that were subject to the MLR reporting requirements of 45 CFR Part 158. As of December 31, 2014, the Company reported a total of 107,687 covered lives and $521,464,248 in direct earned premium for policies subject to the MLR reporting and rebate requirements under 45 CFR Part 158. The Company's lines of business not subject to the MLR regulations at 45 CFR Part 158 include administration of self-funded group health plans.

B. Management

The corporate officers and board of directors of the Company as of December 31, 2014 were:

[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.

<u>Officers</u>

Name	Title
Michael H. Reitz	President & CEO
Peggy B. Scott	Executive Vice President, COO, CFO & Treasurer
Adam A. Short	Vice President & Controller
Brian G. Small	Senior Vice President & Chief Actuary
Ann H. Knapp	Secretary
Michele S. Calandro	Senior Vice President, Legal Affairs, General Counsel & Assistant Secretary

<u>Directors</u>

Name
Charles R. Atkins DDS
Daniel S. Borne
Michael B. Bruno
Jerome K. Greig
Ann H. Knapp
Carl S. Luikart MD
James K. McCotter
Charles B. McCoy
Judy P. Miller
Thad D. Minaldi
Michael H. Reitz
Virgil Robinson Jr.

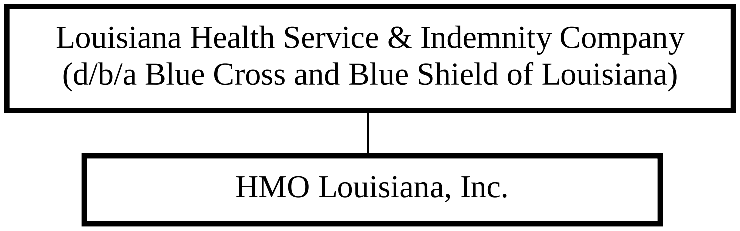
Company management and corporate-level personnel responsible for the preparation, submission, and attestation of the 2014 MLR Annual Reporting Form were:

Name	Title
Brian Small	CEO Attester
Adam Short	CFO Attester

C. Ownership

The Company is a member of an insurance holding group system.

HMO Louisiana, Inc.
Organizational Chart[2] as of December 31, 2014



D. Agreements

As of December 31, 2014, the Company had entered into the following intercompany agreements that are pertinent to a review of its 2014 MLR Annual Reporting Form:

1. An Administrative Services and Operations Support Agreement with Louisiana Health Service & Indemnity Company.
2. A Tax Allocation Agreement with Louisiana Health Service and Indemnity Company.

E. Reinsurance

During 2012, 2013, and 2014, the Company did not have any reinsurance agreements in effect that impacted the MLR reporting of its health insurance policies subject to the regulations at 45 CFR Part 158.

V. Accounts and Records

The Company's main administrative and financial reporting office is located at 5525 Reitz Avenue, Baton Rouge, Louisiana 70809. The Company provided adequate access to its accounts and records, including computer and other electronic systems, as required by §158.501.

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 2012, 2013, and 2014 MLR Annual Reporting Forms were not filed on the form and in the manner prescribed by the Secretary. The Company's 2012, 2013, and 2014 MLR Annual Reporting Forms were filed by the due date.

For all three years under examination, the Company reported that it met the MLR standard of 80% in the individual and small group markets and 85% in the large group market and thus was not required to pay rebates to its enrollees.

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

A. MLR Data

Market Classification
The Company adopted policies and procedures for determining group size and market classification that are consistent with the definitions in §158.103 applicable to the 2012-2014 reporting years. The samples of policies tested during the examination were assigned to the correct market classification.

Aggregation
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
Based upon the procedures performed, including validation of a sample of incurred claims (as defined by §158.140) reported by the Company, nothing came to our attention that would indicate that incurred claims were not accurately reported.

Claims Recovered Through Fraud Reduction Efforts
Based on the procedures performed, no errors were noted in how the Company reported 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

Insufficient Documentation of QIA
The Company did not maintain adequate documentation to support the expenses it reported as QIA. Section 158.502 requires an issuer to maintain all documents and other evidence necessary to enable CCIIO to verify compliance with the definitions and criteria set forth in 45 CFR Part 158 and that the MLR and any rebates owing are calculated and provided in accordance with this regulation.

The Company could not provide any time studies of employee activities or otherwise substantiate the salary ratios used to allocate salary costs to QIA. The examiners performed alternative testing procedures, such as reviewing the titles and job descriptions, allocation percentages, and other information obtained from the Company related to employees whose salaries were reported as QIA expenses. Based on these alternative procedures, the examiners concluded that any expenses for the portion of activities that may not have qualified as QIA were likely to be immaterial and therefore no adjustments were made to the Company's MLR calculations as a result of this finding.

Improper Allocation of QIA
The Company improperly allocated the portion of the salary of employees who provided administrative services to self-funded group health plans as QIA expenses on its 2014 MLR Annual Reporting Form in the markets subject to the MLR regulations at 45 CFR Part 158. As a

result, the Company overstated QIA expenses by $18,352 in the individual market, $27,425 in the small group market, and $18,845 in the large group market.

Improper Inclusion of Expenses That Do Not Qualify as QIA
The Company improperly included in QIA expenses the cost of an awards dinner it held to recognize the achievements of the staff of its internally designed health and quality improvement program. As a result, the Company overstated QIA expenses by $4,737 in the individual market, $7,078 in the small group market, and $4,864 in the large group market.

Based upon the procedures performed, other than the items noted above**,** nothing additional came to our attention that would indicate that other QIA expenses were not accurately reported and reasonably allocated among the Company's markets, as required by §158.170.

Earned Premium

Incorrect Reporting of APTC Received
The Company incorrectly reported on its 2014 MLR Annual Reporting Form the amount of APTC it received in the individual market as $14,732, 313 when the correct amount that should have been reported was $42,584,576. This error did not impact the MLR calculation as the total amount of earned premium was reported correctly, and the line reserved for APTC is for informational purposes only and is not included in the actual MLR calculation.

Based upon the procedures performed, nothing additional came to our attention that would indicate that earned premium was not properly reported on a direct basis or that the data elements underlying the 2012, 2013, and 2014 premium as reported on the Company's 2014 MLR Annual Reporting Form were not reported in accordance with §158.130.

Taxes
Based upon the procedures performed, nothing came to our attention that would indicate that the taxes and regulatory fees excluded from 2012, 2013, and 2014 earned premium on the Company's 2014 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 markets, as required by §158.170 and in accordance with its federal tax allocation agreement with its various affiliates. On its 2014 MLR Annual Reporting Form, the Company reported that it allocated its federal income taxes to each market based on underwriting gain or loss, and other taxes based on premium and other methodologies, which the examination confirmed.

Federal Transitional Reinsurance, Risk Adjustment, and Risk Corridors Programs
Based upon the procedures performed, nothing came to our attention that would indicate that the Company did not properly report the net transitional reinsurance payments expected from HHS, the charges payable to HHS under the federal risk adjustment program, or the payments expected from HHS under the federal risk corridors program for the 2014 benefit year, in compliance with §158.140(b)(4)(ii).

B. Credibility-Adjusted MLR and Rebate Amount Calculation

The Company's, 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 for 2012, 2013, and 2014, the Company used the correct procedures to determine that no rebates were due for those years in those markets.

C. Rebate Disbursement and Notice

According to its 2012, 2013, and 2014 MLR Annual Reporting Forms, the Company did not report any rebates owed as a result of the MLR calculations. Based upon the procedures performed, the Company was not required to and did not issue any Notices of rebates for the 2012, 2013, and 2014 reporting years, in accordance with §158.250.

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 Louisiana Department of Insurance performed a financial examination of the Company in 2013 covering the period January 1, 2008 through December 31, 2012. The financial examination resulted in one finding, which did not impact its 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 2014 MLR Annual Reporting Form. No post-December 31, 2014 significant events were brought to CCIIO's attention.

VIII. Conclusion, Corrective Actions, Company Response and CCIIO Reply

CCIIO examined HMO Louisiana, Inc.'s 2014 MLR Annual Reporting Form to assess the Company's 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 MLR Annual Reporting Form, and the accuracy and timeliness of any rebate payments. As detailed above, the Company's 2014 MLR Annual Reporting Form contained some elements that were not fully compliant with the requirements of 45 CFR Part 158. The effect of the examination findings and resultant recalculation of the Company's MLRs did not result in any rebates being owed in any of the markets in the one state in which it operated.

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

Corrective Action #1

The Company must adopt and implement procedures to ensure that activities and expenses reported as QIA meet the requirements of §158.150 and that sufficient documentation exists to support such determinations, in accordance with §158.502. For salary-related expenses classified as QIA, this would include performing time studies of employee activities and/or other quantitative analyses of salary ratios to support allocating any such amounts to QIA, as only salary amounts supported by quantitative analyses regarding allocation of time spent on qualifying QIA activities should be considered as allowable QIA expenses. In addition, the Company must allocate QIA to the appropriate markets and lines of business in an accurate manner in accordance with §158.170, utilizing a methodology that will yield the most accurate results.

Company Response
"In accordance §158.221, the Company elected to report the standardized amount of allowable quality improvement expenses (.8% of earned premium) for the 2017 MLR Annual Reporting."

CCIIO Reply
CCIIO accepts the Company's response and the corrective action plan and reminds the Company that the election of reporting 0.8% for QIA expenses rather than actual QIA expenses must be used for all of the issuer's states and markets and for a minimum of three consecutive MLR reporting years. Additionally, all affiliated issuers must use the same reporting method in any given year. If the Company decides to return to reporting actual QIA expenses, it must implement the corrective actions described herein.

Corrective Action #2
The Company must adopt and implement procedures to ensure it completes the MLR Annual Reporting Form in accordance with the applicable MLR Annual Reporting Form Filing Instructions, including accurately reporting APTC amounts.

Company Response
"The Company inadvertently reported the Advanced Premium Tax Credit (APTC) as $14M rather than $42M in an information only line on the 2014 MLR Annual Reporting Form. The error did not impact the calculation as the total amount of earned premium was recorded correctly. The Company has implemented additional crosschecks since the 2014 MLR filing to ensure the total amount of APTC is recorded on this informational only line.

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

The corrective actions provided in this report should be shared with and adopted by, as applicable, any affiliated entities of the Company, such as its parent or subsidiaries, if any, that are similarly 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.