UnitedHealthcare of North Carolina, Inc.

Greensboro, NC

Report on Medical Loss Ratio Examination

As of December 31, 2011, 2012 and 2013

UnitedHealthcare of North Carolina, Inc.
Report on Medical Loss Ratio Examination
As of December 31, 2011, 2012 and 2013

Table of Contents

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions, the North Carolina Department of Insurance ("Department") conducted a medical loss ratio ("MLR") examination of UnitedHealthcare of North Carolina, Inc. ("Company") as of December 31, 2011, 2012 and 2013, including the period through March 31, 2014, for runoff activity. This is the Department's first MLR examination of the Company.

This examination was performed in accordance with examination standards established by the Department. The purpose of this examination was to examine the components of the MLR Annual Report Form as completed by the Company and submitted to the U.S. Department of Health and Human Services ("HHS") for the 2011, 2012 and 2013 MLR reporting years. The Department examined the components of the MLR Annual Report Form by utilizing the MLR Examination Procedures Spreadsheet developed by HHS in consultation with the National Association of Insurance Commissioners ("NAIC") which was in effect for the specified examination period. The findings and recommendations of our examination are based solely on the work performed and are provided in the Summary of Objectives, Findings and Recommendations beginning on page six (6).

Respectfully submitted,

Hasije P. Harris CPA

Hasije P. Harris, CPA, CGMA, PIR
MLR Section Manager
Examiner-In-Charge
North Carolina Department of Insurance

February 19, 2016

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Hasije Harris, MLR Section Manager, North Carolina Department of Insurance, being first duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Hasije P. Harris CPA Date: 2-19-16
Hasije Harris

Sworn and subscribed before me this ____19th day of ____February____________, 2016.

Notary Public Signature: Djidade B. Muhovi Notary Public Seal:

Djidade B. Muhovi
NOTARY
My Comm. Exp.
9/5/2017
PUBLIC
WAKE COUNTY, N.C.

1. Company Background

UnitedHealthcare of North Carolina, Inc. (the "Company") was incorporated on March 12, 1985, and operations commenced on May 21, 1985. The Company is licensed as a health maintenance organization ("HMO") and offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare and Medicaid Services ("CMS"). The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. ("UHC"). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. ("UHS"), an HMO management corporation that provides services to the Company under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated ("UnitedHealth Group"). UnitedHealth Group is a publicly held company trading on the New York Stock Exchange.

2. Scope of the Examination

The Department performed a limited scope examination on the components of the MLR Annual Report Form as completed by the Company and submitted to HHS for the 2011, 2012 and 2013 MLR reporting years. The Department reviewed and tested, as deemed appropriate, the following items in accordance with 45 CFR Part 158: validity of the data regarding premiums, claims and expenses that the Company reported to HHS, including the propriety of the allocations of expenses used in such reporting, whether the activities associated with the Company's reported expenditures for quality improving activities meet the definition of such activities, the accuracy of rebate calculations, and the timeliness and accuracy of rebate payments as applicable. The Company's MLR documentation was reviewed by KPMG and our testing was conducted leveraging the general procedures in the MLR Examination Procedures Spreadsheet.The Examiners relied upon, retested or expanded samples selected specifically for the Company.

3. Summary of Examination Objectives, Findings and Recommendations

2011 MLR Components	Individual	Small Group	Large Group
Adjusted Incurred Claims	242,810	35,567,934	7,870,249
Plus: Quality Improvement Expenses	1,766	504,767	111,738
MLR Numerator	244,575	36,072,701	7,981,988
Premium Earned	315,530	50,442,886	11,460,058
Less: Federal & State Taxes and Licensing or Regulatory Fees	(18,567)	(4,386,765)	(1,092,374)
MLR Denominator	296,963	46,056,121	10,367,684
Preliminary MLR Before Credibility Adjustment	80.0%	78.3%	77.0%
Credibility Adjustment	-	2.6%	5.2%
Credibility Adjusted MLR	-	80.9%	82.2%
2011 Standard/Waived MLR	75.0%	80.0%	85.0%
Rebate Amount	-	-	$290,295

2012 MLR Components	Individual	Small Group	Large Group
Adjusted Incurred Claims	888,812	90,499,062	17,630,284
Plus: Quality Improvement Expenses Plus: MLR rebates paid based on 2011 or 2012 experience	6,620	1,214,944	258,206 290,265
MLR Numerator	910,279	91,714,006	18,178,785
Premium Earned	1,130,600	122,491,742	23,865,157
Less: Federal & State Taxes and Licensing or Regulatory Fees	(71,748)	(8,515,601)	(1,753,084)
MLR Denominator	1,058,852	113,976,140	22,112,042
Preliminary MLR Before Credibility Adjustment	86.0%	80.5%	82.2%
Credibility Adjustment	-	1.6%	3.6%
Credibility Adjusted MLR	86.0%	82.0%	85.8%
2011 Standard/Waived MLR	80.0%	80.0%	85.0%
Rebate Amount	-	-	-

UnitedHealthcare of North Carolina, Inc.

Report on Medical Loss Ratio Examination
As of December 31, 2011, 2012 and 2013

2013 MLR Components	Individual	Small Group	Large Group
Adjusted Incurred Claims	1,835,479	154,607,903	28,786,271
Plus: Quality Improvement Expenses	12,432	2,044,306	403,781
Plus: MLR rebates paid based on 2011 or 2012 experience			290,295
MLR Numerator	1,862,760	156,652,209	29,480,347
Premium Earned	2,312,304	209,931,039	38,556,695
Less: Federal & State Taxes and Licensing or Regulatory Fees	(127,183)	(13,966,854)	(2,797,315)
MLR Denominator	2,185,121	195,964,185	35,759,380
Preliminary MLR Before Credibility Adjustment	85.2%	79.9%	82.4%
Credibility Adjustment	-	1.3%	2.9%
Credibility Adjusted MLR	85.2%	81.2%	85.3%
2011 Standard/Waived MLR	80.0%	80.0%	85.0%
Rebate Amount	-	-	-

a. **Reporting**

Test the accuracy of MLR annual reporting and reconcile with the Supplemental Health Care Exhibit.

Findings:

The Company filed an MLR Annual Report Form by June 1, 2012 for the 2011 reporting year, June 1, 2013 for the 2012 reporting year and July 31, 2014 for the 2013 reporting year in compliance with Title 45 CFR §158.110(b). The due date for the MLR Annual Report Form was permanently extended for all reporting organizations as of the 2013 reporting year.

Center for Consumer Information and Insurance Oversight (CCIIO) Technical Guidance (CCIIO 2015-0001), issued on May 27, 2015, focused on the impact of broker fees and commissions on the reporting of earned premium in the MLR Annual Report Form. Within CCIIO 2015-0001 the CCIIO established seven specific conditions which must be met in order for an issuer to exclude broker fees and commissions from premiums for MLR reporting purposes. Based upon our review of the Company's procedures related to these conditions and additional documentation provided to us by the Company, we did not identify any exceptions to the conditions specified in CCIIO 2015-0001.

Recommendation:

None.

b) **Validation of the Consistency of Included/Excluded Data**

Test the accuracy of state and market classifications, the accuracy of reporting under the dual contracts option, and the reasonableness and accuracy of expense allocations.

Findings:

The Company complied with all state and market classification requirements for the 2011, 2012 and 2013 reporting years and is in compliance with Title 45 CFR §158.110, §158.120 and §158.220. There are no dual option contracts written by the Company as defined under Title 45 CFR §158.120(c).

Corporate expense allocations are completed by the parent organization for its multiple subsidiaries, including taxes, executive salaries for underwriting, claims and finance, and corporate IT expenses. For expense purposes, Title 45 CFR §158.170 uses language such as "Allocation to each category should be based on a generally accepted accounting method that is expected to yield the most accurate results" and "Any basis adopted to apportion expenses must be that which is expected to yield the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios or similar analyses." Due to the size of the parent and holding entities, allocated expenses will be material to the Company.

The examination of this process is the responsibility of Connecticut, the lead state for the UnitedHealthcare Group. The testing performed by KPMG for NAIC Procedure Section 10 excludes the overall corporate expense allocation methodology. No examination of the allocation process at the UHC corporate level to individual legal entities (e.g. the Company) was performed by the NCDOI. This applies to the 2011-2013 reporting years. It is to be noted that KPMG performed further testing on the expense allocations within the Company only, related to the market segments and QI/HIT for the purposes of reporting on the MLR form for the 2013 year alone. This testing did not result in any reportable exceptions. The major objective of this procedure was not accomplished due to the decision to limit the process to internal Company allocations and performing this review for the 2013 year only.

Recommendation:

We recommend that the Company determine whether control and substantive testing has been completed for holding company and corporate level allocations in order to verify that expenses reported for MLR purposes have been accurate for 2011-2013.

c) Validation of Data Utilized in Calculating MLR

Test the accuracy of reporting for new business, the accuracy of reporting of reinsurance and the accuracy of life-years.

Findings:

The Company accurately reported new business in 2011, 2012 and 2013 in compliance with Title 45 CFR §158.121. The "block of business" test for reinsurance was not applicable for this Company in 2011, 2012 and 2013. Life-Years were reported accurately as required in compliance with Title 45 CFR §158.230(b).

Recommendation:

None

d) Calculation of the Medical Loss Ratio Numerator

Test the accuracy of reporting of claims, the classification of activities that improve health care quality, and the aggregation of data in the MLR numerator.

Findings:

From the claims data requested, we were able to reconcile the totals reported by lines of business to the Company's claims system. We were able to verify the lines of business on a sample basis without exception. We reviewed third-party vendor payments as specified in Title 45 CFR §158.160 and verified that no non-claim payments were recorded in direct losses.

We were required to test that health care quality improvement expenses reported on the MLR Form conform to the definition of health care quality improvement expenses in Title 45 CFR §158.150-151. Health care quality improvement (QI) activities reported on the MLR Form must be consistent with the activities described in the MLR Annual Reporting Form. The following are observations noted during the exam:

A. Although the Department Summary provides valid information regarding the QI/HIT activity, allocation and percentage, additional information would be useful to further understand the rationale used (methodology) for allocating costs per QI/HIT category. This may include information regarding how the internal departments' costs are analyzed to determine the QI/HIT allocation or include other cost drivers or cost studies that were evaluated, where relevant.

B. The Income Statement tabs for each Department include a General Ledger Roll-Up line. Management should obtain further information and enhance the requirement related to the level of documentation retained. This would enable the QI/HIT to be comprehensively documented.

C. The level of information provided on the Project Code Classification does not include sufficient detail to assess how the QI/HIT activity meets the definition of health care quality improvement expenses. It should be noted that the examiners did not identify any expenses which were misclassified during our substantive testing

Recommendation:

We recommend that Management review the Company's internal reports, MLR documentation, descriptions and the project code classifications. This would enhance the level of documentation retained and submitted to the Company's MLR staff for review so that the rationale for QI/HIT activity is systematically supported.

e) **Calculation of the Medical Loss Ratio Denominator**

Test the accuracy of reporting of earned premiums, taxes and regulatory fees and the aggregation of data in the MLR denominator.

Findings:

According to Title 45 CFR §158.221(c), the denominator of MLR 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 Title 45 CFR §158.162(a) (1) and (b) (1). From the premium data requested, we were able to verify the data used to calculate the premium revenue on a sample basis without exception. Based on our examination, the Company included appropriate premiums earned in the MLR denominator. We examined the reasonableness of federal and state taxes and licensing and regulatory fees, including the propriety of allocations. The Company's allocation methodology, federal and state taxes, and licensing and regulatory fees reported in the MLR denominator are reasonable and conform to the regulations.

Recommendation:

None

f) Validation of the MLR Calculation

Examination Objective:

Test the accuracy of the MLR standard, the MLR calculation, the aggregation of member-months and life-years, the accuracy of base credibility factor, the accuracy of the deductible factor and the accuracy of the credibility adjustment.

Findings:

The Company used the appropriate 2011, 2012, 2013 MLR standards for Individual, Small and Large Group business as defined under Title 45 CFR §158.210 and Title 45 CFR §158.211. The preliminary MLR's and the credibility-adjusted MLR's are accurate as defined under Title 45 CFR §158.221. Verification of the aggregation of life years was completed for reporting years 2012 and 2013 under Title 45 CFR §158.231. No aggregation is applicable to the 2011 year.

The base credibility factors appear to be correct and the deductibility factors are acceptable as specified by Title 45 CFR §158.230, Title 45 CFR §158.231, and Title 45 CFR §158.232(a) and (c). This resulted in an accurate base credibility factor calculation and an accurate final credibility adjustment for each category of business.

Recommendation:

None

g) Rebate Notice and Payment

Test the accuracy of rebate payments, accuracy of the distribution of the de minimis rebates, and compliance with rebates disbursement requirements.

Findings:

In accordance with Title 45 CFR §158.240, §158.241, §158.242 we verified that the Company paid rebates in North Carolina markets when required. Rebate payments were paid only for the Large Group category for year 2011. Rebate payments were calculated by multiplying the difference between the Minimum Loss Ratio and the Actual Loss Ratio (85.0% - 82.2%), or 2.8%, by the MLR earned premiums in the 2011 Large Group category. The result was $290,295. Payments were made on or before August 1, 2012. We selected twenty-five rebate checks to verify that rebate mailings were done timely.

In accordance with Title 45 CFR §158.243 we tested the accuracy of the distribution of de minimis rebates. The Company did not have any de minimis rebates in 2011, 2012 and 2013 per the records provided.

In accordance with Title 45 CFR §158.244, §158.250 and §158.251 we verified that rebate notices were issued in the prescribed form and contained all required disclosures to the subscribers in the large group market. Notification of the rebate was sent to the employees of each group by the Company.

A Notice of MLR Information when the MLR standard is met or exceeded was provided to policyholders or subscribers in groups for the 2011 reporting year as required by Title 45 CFR §158.251. The Company was required to provide this one-time notice, including the language required by Section 158.251(a)(4), with the first health plan document that the Company sent to enrollees on or after July 1, 2012 if an enrollee did not receive a rebate for the 2011 year. There were no outstanding checks applicable to rebates paid in 2011. No rebates were paid in 2012 and 2013.

Recommendation:

None

Appendix A – Report Distribution

Garland Greever Scott III, President, CEO, Chair
3803 North Elm Street
Greenboro, NC 27455

Elizabeth Madren Kasai, CFO
3803 North Elm Street
Greenboro, NC 27455

Nyle Brent Cottington, Assistant Treasurer
9700 Health Care Lane
Minnetonka, MN 55343

Nichelle Marie Huntley, Assistant Secretary
9900 Bren Road East
Minnetonka, MN 55343