



2016 Report on Non-Profit Health Service Plan
Compliance with Title 14 Subtitle 1 of the Insurance
Article of the Annotated Code of Maryland
MSAR # 2224

May 31, 2017

INTRODUCTION

CareFirst, Inc., which holds a certificate of authority from the State of Maryland as a non-profit health service plan, is the holding company of, among other entities, CareFirst of Maryland, Inc. (CFMI), a Maryland-domiciled company, and Group Hospitalization and Medical Services, Inc. (GHMSI), a federally chartered company domiciled in the District of Columbia. Both companies are non-profit health service plans and hold certificates of authority from the State. This report addresses the activities CareFirst, Inc., CFMI and GHMSI which, unless otherwise indicated, will be referred to collectively as “CareFirst.”

Section 14-102(a) states that the purpose of Title 14, Subtitle 1 is:

- (1) to regulate the formation and operation of non-profit health service plans in the State; and
- (2) to promote the formation and existence of non-profit health service plans in the State that:
 - (i) are committed to a non-profit corporate structure;
 - (ii) seek to provide individuals, businesses, and other groups with affordable and accessible health insurance; and
 - (iii) recognize a responsibility to contribute to the improvement of the overall health status of the residents of the jurisdictions in which the non-profit health service plans operate.

The review of CareFirst’s compliance with Title 14, Subtitle 1 of the Insurance Article for calendar year 2016 is divided into the six subparts, which are as follows.

- Part I Definition; General Provisions;
- Part II Certificates of Authority;
- Part III Management, Finances, and Solvency;
- Part IV Regulatory Authority of Commissioner;
- Part V Conversion; Acquisitions and Investments; and
- Part VI Prohibited Acts; Penalties.

This report addresses all Parts with the exception of Part IV as it does not involve actions that must be taken by CareFirst.

PART I – DEFINITIONS; GENERAL PROVISIONS (§§14-101 TO 14-107)

A. Non-profit Mission

Section 14-102(c) provides that the mission of a non-profit health service plan is to:

- (1) provide affordable and accessible health insurance to the plan’s insureds and

- those persons insured or issued health benefit plans by affiliates or subsidiaries of the plan;
- (2) assist and support public and private health care initiatives for individuals without health insurance; and
 - (3) promote the integration of a health care system that meets the health care needs of all the residents of the jurisdictions in which the non-profit health service plan operates.

A non-profit health service plan must have goals, objectives, and strategies for carrying out its non-profit mission. Section 14-102(d).

According to a March 31, 2017 update to the Maryland Insurance Administration (MIA), CareFirst contributed approximately \$43 million to health-related community initiatives in 2016 and of that amount, \$11 million was spent in the State of Maryland on a variety of local initiatives and organizations including: Baltimore City's Department of Health's B'more for Healthy Babies, Roberta's House, and Prince George's County Community Clinic, Inc. Additionally, CareFirst donated to numerous organizations that provide services throughout the State such as the American Cancer Society, the American Diabetes Association, and the American Heart Association.

Additional confirmation that CareFirst was in compliance with its non-profit mission was its compliance with §§14-106 through 14-106.2, which required CareFirst to spend funds for a public purpose equal to its premium tax exemption amount, and to annually transfer additional funds to the Senior Prescription Drug Assistance Program. (See Section 1.D.)

These efforts show a continued commitment to assisting and supporting public and private health care initiatives that fulfills CareFirst's obligations under §§14-102 and 14-106.

B. Disclosure of Not-For-Profit Status

Section 14-103 requires CareFirst to "disclose on each document, statement, announcement, and advertisement and in any representation it places before the public that [it] is a private not-for-profit corporation." The MIA is not aware of any instances in which CareFirst failed to comply with these provisions during calendar year 2016.

C. Statement of Principal Claims Practices

Section 14-104 (b) requires CareFirst to provide a statement of principal claims practices in its certificate form or booklet, which "shall include practices for payment for: (1) surgical procedures performed by two or more surgeons; (2) services provided in-area by nonparticipating providers; and (3) services provided out-of-area by affiliated plans and affiliated providers." Each individual policy and group certificate is also required by regulation to make clear how to file a claim and provide proof of loss. COMAR 31.10.25.04.

CareFirst has complied with §14-104(b) during calendar year 2016.

D. Premium Tax Exemption and Transfer to Senior Prescription Drug Assistance Program

Section 14-106 provides that a non-profit health service plan is exempt from the State's premium tax "so that funds that would otherwise be collected by the State and spent for a public purpose shall be used in a like manner and amount by the non-profit health service plan." CareFirst is required by March 1 of each year to file with the MIA a Premium Tax Exemption Report, which demonstrates that it has used funds equal to the value of its premium tax exemption in a manner that serves the public interest in accordance with §14-106. According to the 2016 report submitted by CareFirst, CFMI's payments for public purposes totaled \$14,631,962, exceeding the value of its premium tax exemption (i.e., \$12,395,261) by \$2,236,701. GHMSI's payments for public purposes totaled \$11,535,085, exceeding the value of its premium tax exemption (i.e., \$9,771,786) by \$1,763,299. Section 14-106.2 requires CareFirst to transfer annually \$4,000,000 to the Senior Prescription Drug Assistance Program for the "donut hole subsidy" if CareFirst's surplus exceeds 800% of the risk based capital requirement for each of CFMI and GHMSI. In 2016, CFMI's surplus totaled 629% of its risk based capital requirement, and GHMSI's surplus totaled 850% of its risk based capital requirement. CareFirst's 2016 Premium Tax Exemption Report disclosed that it had made the \$4,000,000 transfer even though CFMI's surplus did not exceed the risk based capital threshold.

On April 28, 2017, the Commissioner issued an order notifying CareFirst that its 2016 Premium Tax Exemption Report was in compliance with the requirements of §14-106. (Attachment A.)

**PART II – CERTIFICATES OF AUTHORITY
(§§14-108 TO 14-112)**

CareFirst maintained the appropriate State certificate of authority required by §§14-108 through 14-111. There were no delinquency proceedings instituted against CareFirst during calendar year 2016.

**PART III – MANAGEMENT, FINANCES, AND SOLVENCY
(§§14-115 TO 14-121)**

A. Management of Business by a Board of Directors

CareFirst and each of its affiliates operated under the management of a board of directors as required by the provisions of §14-115.¹

B. Duties of Officers; Sanctions

The MIA is not aware of any instances in which CareFirst's officers acted in a manner inconsistent with the mission of CareFirst as required by §14-115.1 during calendar year 2016.

¹ A listing of the members of each board of directors for CareFirst, Inc. and its affiliates can be found online at: <https://individual.carefirst.com/individuals-families/about-us/leadership-bios.page?#tab=carefirst-inc-board&accordion=carefirst-inc-board-board-of-directors>

C. Unsound or Unsafe Business Practices

The MIA is not aware of any instances in which CareFirst's officers or directors engaged in unsound or unsafe business practices as defined by §14-116 during calendar year 2016. Furthermore, Maryland's Attorney General did not notify the MIA that he had reason to believe that any of CareFirst's officers or directors have engaged in unsound or unsafe business practices pursuant to §14-116(f) in calendar year 2016.

D. Surplus Requirements

During calendar year 2016, CareFirst's surplus funds (i.e., the amount by which assets exceed liabilities) exceeded the minimum amounts required by §14-117.

Section 14-117(e) defines when the Insurance Commissioner may consider the surplus of a non-profit health service plan to be excessive and the procedure by which the excess surplus may be distributed. On September 14, 2012, the Insurance Commissioner executed a consent order with CareFirst stating that the targeted surplus ranges proposed by CareFirst and reviewed by the MIA were neither excessive nor unreasonably large.² During calendar year 2016, the Insurance Commissioner did not determine that CareFirst's surplus was excessive. CareFirst did not have an impaired surplus (§14-118) and it did not issue a notification of impairment (§14-119).

E. Investments

Section 14-120(b) provides that a non-profit health service plan, "may invest its funds only in assets allowed for the investment of the funds of life insurers under §§5-101 and 5-102 and Title 5, Subtitle 5 of this article." Each year, the MIA's investment specialist performs a detailed portfolio analysis of CareFirst. As a part of that analysis, the portfolio is qualitatively and quantitatively compared to the provisions of Title 5, Subtitle 5. The analysis of CareFirst's portfolio as of December 31, 2016 disclosed that CareFirst was in compliance with the provisions of Title 5, Subtitle 5.

F. Annual and Interim Statements, Audited Financial Reports

During calendar year 2016, CareFirst complied with §14-121, which requires that each non-profit health service plan file with the Insurance Commissioner an annual, complete statement of its financial condition, transactions, and affairs for the immediately preceding calendar year, interim financial statements, and annual audited financial statements. CareFirst filed with the MIA an annual statement of financial condition, an interim financial statement and a consolidated audited financial statement required by §14-121(d).

² MIA-2012-09-006.

PART V – CONVERSION, ACQUISITIONS AND INVESTMENTS
(§§14-130 TO 14-133)

The MIA's review indicates that CareFirst did not hold or acquire an investment in an affiliate or subsidiary during calendar year 2016 in violation of §14-133 nor did it violate any other provision of Title 14, Subtitle 1, Part V.

PART VI – PROHIBITED ACTS AND PENALTIES
(§§14-136 TO 14-140)

A. Unfair and Discriminatory Trade Practices; Other Prohibited Acts

Section 14-136 prohibits unfair and discriminatory trade practices and other prohibited acts. Specifically, §14-136(a) provides that non-profit health service plans are subject to the unfair and discriminatory trade practices provision of Title 27 of the Insurance Article. During calendar year 2016, the MIA found 1 instance in which CareFirst failed to comply with the provisions of Title 27. Specifically, the MIA issued Order 2016-03-009 dated March 8, 2016, upon a finding that GHMSI failed to respond to a request for an explanation of the basis for the partial denial of a claim which was not in compliance with the provisions of § 27-303(6) of the Insurance Article.

B. Exclusion of Coverage for Violations

Pursuant to §14-137, the MIA identified no instances in 2016 in which CareFirst did not issue, renew, or deliver an insurance contract excluding coverage for hospital or medical expenses based on a violation of a provision of Title 21 of the Transportation Article or a provision of the Natural Resources Article.

C. Disclosure of Medical Information

The MIA is not aware of any instances in which CareFirst disclosed medical information in violation of §14-138 during calendar year 2016.

D. Prohibited Acts of Officers, Directors and Employees

During calendar year 2016, the MIA found no instances in which any of CareFirst's officers, directors or employees performed any of the acts prohibited by §§14-139 or 14-140 or in which CareFirst provided compensation to any of its officers, executives and directors in excess of the amounts in CareFirst's compensation guidelines.

In conclusion, the MIA has determined that CareFirst has fulfilled the statutory requirements of its non-profit mission as set forth in §14-102(c). If you require additional information regarding CareFirst's compliance with its statutory mission, please do not hesitate to contact me.