



Maryland

INSURANCE ADMINISTRATION

**2019 Report on Non-Profit Health Service Plan
Compliance with Title 14 Subtitle 1 of the Insurance
Article of the Annotated Code of Maryland**

MSAR # 10390

**Kathleen A. Birrane
Commissioner**

May 31, 2020

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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 2019 is divided into the six subparts, which are as follows:

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| 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 pursuant to Section 14-102(d).

According to a May 5, 2020 update to the Maryland Insurance Administration (MIA), CareFirst contributed approximately \$10.4 million to health-related community initiatives that benefit Maryland residents and governmental organizations in the State of Maryland, including: United Way of Central Maryland, Baltimore Community Foundation, and Roberta's House.

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.E)

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. Nonprofit Health Service Plans

Nonprofit health service plans are regulated by the statutory sections listed and referenced in Section 14-102(g) of the Insurance Article. Certain provisions of Title 15 of the Insurance Article are among those sections applicable to nonprofit health service plans. During calendar year 2019, the MIA found two instances in which CareFirst failed to comply with the provisions of Title 15. A summary of the orders is contained in Exhibit A.

C. 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 2019.

D. 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.

The MIA is not aware of any instances in which CareFirst failed to comply with §14-104(b) during calendar year 2019.

E. 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 2019 report submitted by CareFirst, CFMI’s payments for public purposes totaled \$13,958,831, which exceeded the value of its premium tax exemption of \$11,544,180. GHMSI’s payments for public purposes totaled \$9,164,727, which exceeded the value of its premium tax exemption of \$7,579,378.

On May 1, 2020, the Commissioner issued an order notifying CareFirst that its 2019 Premium Tax Exemption Report was in compliance with the requirements of §14-106. (See Exhibit B, parts 1 and 2)

**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 the 2019 calendar year.

**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 the 2019 calendar year.

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 2019. 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 2019.

D. Surplus Requirements

During calendar year 2019, 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 2019, 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

¹ [CareFirst’s Board of Directors](#)

² [MIA-2012-09-006](#).

portfolio, as of December 31, 2019, 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 2019, CareFirst complied with §14-121, which requires that each non-profit health service plan file with the Insurance Commissioner a complete annual 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 as required by §14-121(d).

**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 2019 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 2019, there were two instances in which CareFirst failed to comply with the provisions of Title 27. (See Exhibit A)

B. Exclusion of Coverage for Violations

The MIA identified no instances in 2019 pursuant to §14-137, 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 2019.

D. Prohibited Acts of Officers, Directors and Employees

During calendar year 2019, 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 additional information is needed regarding CareFirst's compliance with its statutory mission, please do not hesitate to contact the Maryland Insurance Administration.

EXHIBIT A

MIA Case No.	Company	Date of Order	Section	Findings
2019-04-029	CFMI	4-30-2019	15-1309	CFMI failed to timely send notice of a renewal.
2019-10-019	GHMSI	10-10-2019	4-136 and 15-10D-02	GHMSI violated Section 4-136 by denying a claim and violated 15-10D-02 by failing to state the specific factual bases for a coverage decision and an appeal decision.
2019-12-008	GHMSI	12-11-2019	4-136	GHMSI violated 4-136(b) by denying a claim.

STATE OF MARYLAND
MARYLAND INSURANCE ADMINISTRATION

IN THE MATTER OF
THE 2019 PREMIUM TAX
EXEMPTION REPORTS OF

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CAREFIRST OF MARYLAND, INC.
NAIC #47058
10455 MILL RUN CIRCLE
OWINGS MILLS, MARYLAND 21117

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AND

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GROUP HOSPITALIZATION AND
MEDICAL SERVICES, INC.
NAIC #53007
840 FIRST STREET NE
WASHINGTON, DC 20065

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CASE NO: MIA: 2020- 05-004

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ORDER

This Order addresses the premium tax exemption report filed with the Maryland Insurance Administration (the “MIA”) by CareFirst of Maryland, Inc. (“CFMI”) and Group Hospitalization and Medical Services, Inc. (“GHMSI”) for calendar year 2019. An excerpt of the report is included as Attachment A. [EXHIBIT B Part 2 of 2]

Under Maryland law, a nonprofit 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 nonprofit health service plan.” Md. Code Ann., Ins. §14-106(a).

A nonprofit health service plan is required by March 1 of each year to file with the MIA a report that demonstrates that the plan 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. Md. Code Ann., Ins. §14-106(b). By November 1 of each year the Commissioner is required to issue an order notifying the plan whether it has satisfied these requirements. If the Commissioner determines that the plan has not satisfied the requirements, the Commissioner is required to issue an order requiring the plan to pay the premium tax to the extent it had not contributed to the public purpose in ways permissible under the statute. Md. Code Ann., Ins. §14-107(a) and (b).

During calendar year 2019, nonprofit health service plans were required to subsidize the Senior Prescription Drug Assistance Program. A nonprofit health service

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plan that spent an amount equal to or greater than the value of its premium tax exemption for the Senior Prescription Drug Assistance Program during 2019 qualified for the premium tax exemption.

If its premium tax exemption value exceeded the amount required to be paid to the Senior Prescription Drug Assistance Program, a nonprofit health service plan may demonstrate that it contributed to the public purpose in other ways permissible under the statute to qualify for the premium tax exemption. Specifically, a nonprofit health service plan may satisfy the public service requirement by: (1) increasing access to or the affordability of health care products and services; (2) providing financial or in-kind support for public health programs; (3) employing underwriting standards that increase the availability of one or more health care services or products; (4) employing pricing policies that enhance the affordability of health care services or products and result in a higher medical loss ratio than that established by a comparable for-profit health insurer; or (5) serving the public interest by any method or practice approved by the Commissioner. Md. Code Ann., Ins. §14-106(c).

Regarding financial or in-kind support for public health programs, during calendar year 2019 a nonprofit health service plan was required to subsidize the Kidney Disease Program, support the costs of the Community Health Resources Commission and subsidize the provision of mental health services to the uninsured. Md. Code Ann., Ins. §14-106(d).

Findings:

- (1) Both CFMI and GHMSI hold Certificates of Authority from the State of Maryland to act as nonprofit health service plans.
- (2) CFMI and GHMSI timely filed their 2019 premium tax exemption reports (the “2019 Reports” or “2019 Report”) on February 28, 2020.
- (3) For 2019, the value of CFMI’s premium tax exemption amount was \$11,544,180.
- (4) In calendar year 2019, CFMI’s 2019 Report shows payments made to the Senior Prescription Drug Assistance Program totaling \$8,455,784. Because CFMI’s premium tax exemption value exceeded the amount paid to the Senior Prescription Drug Assistance Program, it was required to demonstrate that it had contributed to the public purpose in other ways permissible under the statute.

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- (5) CFMI's 2019 Report demonstrated that CFMI contributed to the public purpose in other ways permissible under the statute by making payments totaling \$3,088,395 to the Maryland Department of Health to support the costs of the Community Health Resources Commission and the Kidney Disease Program. Also, CFMI made additional payments totaling \$2,414,651 to the Senior Prescription Drug Assistance Program for the "donut hole subsidy."
- (6) According to the 2019 Report, CFMI's payments for public purposes described in paragraphs (4) and (5) totaled \$13,958,831, exceeding the value of its premium tax exemption (i.e., \$11,544,180) by \$2,414,651.
- (7) For 2019, the value of GHMSI's premium tax exemption amount was \$7,579,378.
- (8) In calendar year 2019, GHMSI's 2019 Report shows payments made to the Senior Prescription Drug Assistance Program totaling \$5,544,216. Because GHMSI's premium tax exemption value exceeded the amount paid to the Senior Prescription Drug Assistance Program, it was required to demonstrate that it had contributed to the public purpose in other ways permissible under the statute.
- (9) GHMSI's 2019 Report demonstrated that GHMSI contributed to the public purpose in other ways permissible under the statute by making payments to the Maryland Department of Health to support the costs of the Community Health Resources Commission and the Kidney Disease Program totaling \$2,035,162. Also, GHMSI made additional payments totaling \$1,585,349 to the Senior Prescription Drug Assistance Program for the "donut hole subsidy."
- (10) According to the 2019 Report, GHMSI's payments for public purposes described in paragraph (8) and (9) totaled \$9,164,727, exceeding the value of its premium tax exemption (i.e. \$7,579,378) by \$1,585,349.
- (11) On the basis of all the payments described in paragraphs (4), (5), (8), and (9), both CFMI and GHMSI qualify for the premium tax exemption for calendar year 2019. The premium tax exemption reports filed by CFMI and GHMSI demonstrate that each plan has used funds at least equal to the value of its premium tax exemption in a manner that serves the public interest in accordance with §14-106.

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GROUP HOSPITALIZATION AND MEDICAL SERVICES, INC.**

ACCORDINGLY, the Commissioner hereby determines this 1st day of May, 2020, that CFMI's and GHMSI's 2019 Premium Tax Exemption reports are in compliance with the requirements of § 14-106 of the Insurance Article, Annotated Code of Maryland.

ALFRED W. REDMER, JR.
INSURANCE COMMISSIONER

By: *Vincent O'Grady*
Vincent P. O'Grady
Associate Commissioner
Examination and Auditing

RIGHT TO REQUEST A HEARING

Pursuant to § 2-210 of the Insurance Article and COMAR 31.02.01.03, a person aggrieved by this order may request a hearing on this Order. This request must be in writing and be received by the Commissioner within thirty (30) days of the date of the letter accompanying this Order.

Pursuant to §2-212 of the Insurance Article, the Order shall be stayed pending a hearing only if a demand for hearing is received by the Commissioner within ten (10) days after the Order is issued.

The request for hearing must be made in writing. This request must be addressed to the Maryland Insurance Administration, 200 St. Paul Place, Suite 2700, Baltimore, MD 21202, ATTN: Melanie Gross. Failure to request a hearing timely or to appear at a scheduled hearing will result in a waiver of your rights to contest this Order and the Order shall be made final on its effective date.

Actual Legislative Spending During Calendar Year 2019

State Program FY	Total FY Obligation	Basis of Obligation	Qterly Pymt	CFMI	GHMSI	Total
FY 2019	\$ 19,704,653	2017 Schedule T Filed 3/18 for State Programs 7/18 - 6/19	Jan-19	2,923,154.50	2,003,008.75	4,926,163.25
			Apr-19	2,923,154.50	2,003,008.75	4,926,163.25
FY 2020	\$ 18,542,462	2018 Schedule T Filed 3/19 for State Programs 7/19 - 6/20	Jul-19	2,848,935.25	1,786,680.25	4,635,615.50
			Oct-19	2,848,935.25	1,786,680.25	4,635,615.50
Total				11,544,179.50	7,579,378.00	19,123,557.50
see (a) below						
SPDAP Donut Hole Subsidy	\$ 4,000,000.00	Annual Assessment Entity split based on the avg of Schedule T's Filed For FY 19 & 20 to equal CareFirst Calendar Yr 2019. See Alloc 2	Jan-19	603,662.76	396,337.24	1,000,000
			Apr-19	603,662.76	396,337.24	1,000,000
			Jul-19	603,662.76	396,337.24	1,000,000
			Oct-19	603,662.76	396,337.24	1,000,000
				2,414,651	1,585,349	4,000,000
Total Legislative Spending and SPDAP Commitment				13,958,831	9,164,727	23,123,558
				transfer to a-1	transfer to b-1	

(a) Program Funding Based on Above Payments (see allocation methodology below)

Payee	Program	Total Due	01/01/19	04/01/19	07/01/19	10/01/19	
DHMH	Sr Rx Assistance Program	\$ 14,000,000	3,500,000	3,500,000	3,500,000	3,500,000	
		CFMI \$ 8,455,784	2,076,878	2,076,878	2,151,014	2,151,014	
		GHMSI 5,544,216	1,423,122	1,423,122	1,348,986	1,348,986	
DHMH*	Comm Hlth Res Comm - Operating Budget & Kidney Disease Program	\$ 5,123,558	1,426,163	1,426,163	1,135,616	1,135,616	
		CFMI \$ 3,088,395	846,276	846,276	697,921	697,921	
		GHMSI 2,035,162	579,887	579,887	437,694	437,694	
		\$ 19,123,558	4,926,163	4,926,163	4,635,616	4,635,616	
		CFMI 11,544,180	2,923,155	2,923,155	2,848,935	2,848,935	
		GHMSI 7,579,378	2,003,009	2,003,009	1,786,680	1,786,680	
			2nd Half of FY 2019 Funding based on 2017 Premium Exemption amount \$19,704,653		1st Half of FY 2020 Funding based on 2018 Premium Exemption amount \$18,542,462		
Allocation Methodology:			Legislative Funding Requirement (alloc 1)		SPDAP Donut Hole Subsidy (alloc. 2)		
			Sch T		Sch T		
FY 2019	CFMI	11,692,618	59.3%	CFMI (sum of FY19 & 20)		23,088,359	60.37%
	GHMSI	8,012,035	40.7%	GHMSI (sum of FY19 & 20)		15,158,756	39.63%
		19,704,653				38,247,115	
FY 2020	CFMI	11,395,741	61.5%				
	GHMSI	7,146,721	38.5%				
		18,542,462					

* funds submitted are used to support the CHRC Operating Budget and Kidney Disease Program (DHMH determines split).

38,247,115

19,123,558