

1 Market Conduct Affairs of Sierra Health & Life Insurance Company”, dated January 14,
2 1999.

3 3. Following a market conduct examination of Sierra Health and Life
4 Insurance Company as of October 30, 1993, the Director entered a Consent Order,
5 Docket No. 95-202, which was filed on August 22, 1995 (the “1995 Order”). In
6 pertinent part, the 1995 Order stated as follows:

7 “Respondent shall cease and desist from failing to: notify insureds of the
8 acceptance or denial of claims within 15 working days of receipt of properly executed
9 proofs of loss; notify contract providers of the acceptance or denial of claims within the
10 time period set forth in their contracts with Respondent; pay all non-contract claims
11 within 30 days after receipt of proof of loss which contains all information necessary for
12 claim adjudication, or pay interest on the claims from the date the claim was received
13 by Respondent; reply within 10 working days to all pertinent communications from
14 claimants which reasonably suggest that a response is expected; pay all contract
15 claims within the time period set forth in the contract with the provider, or pay interest
16 or other penalties to the provider as set forth in the contract.”

17 4. Sierra terminated all group business in Arizona effective May 1, 2001.

18 5. The Examiners reviewed all the advertising forms and two letters issued by
19 Sierra and one of Sierra's agents to the public and found as follows:

20 a. Sierra failed to maintain a record of the manner and extent of
21 distribution of 26 advertising forms issued to the public.

22 b. Sierra issued 24 advertising forms that failed to disclose the extent
23 to which any loss is not covered if the cause of such loss is traceable to conditions
24 existing prior to the effective date of the policy.

1 c. Sierra's agent issued two advertising forms to the public that
2 referred to specific policy benefits but did not disclose the exceptions, reductions and
3 limitations affecting the basic provisions of the policy and failed to disclose the extent
4 to which any loss is not covered if the cause of such loss is traceable to a condition
5 existing prior to the effective date of the policy.

6 6. Sierra issued four policy forms that had been submitted to the Department
7 prior to use, which required prior authorization for spinal manipulation but such a
8 restriction was not applicable to other doctors' office visits.

9 7. Sierra issued two policy forms that denied, limited or conditioned benefits
10 based upon a person's health status.

11 8. The Examiners reviewed 116 of 571 group disability policies that renewed
12 during the time frame of the examination and found as follows:

13 a. Sierra issued 102 renewal notices that failed to include an
14 explanation of the extent to which any increase in premium was due to the actual or
15 expected claims experience of the individuals covered under the employers' health
16 benefit plan.

17 b. Sierra failed to send a written notice to nine renewing groups at
18 least 60 days prior to the expiration of their health benefits plan.

19 c. Sierra failed to provide renewal notices to five renewing groups prior
20 to the expiration of their health benefits plan.

21 9. Sierra renewed 83 group health benefits plans insuring 1,359 individuals
22 between January 1, 1998 and July 31, 1998 that required prior authorization for
23 hospital admission in connection with normal childbirth delivery.

24 10. Sierra issued or renewed three health benefits plans between January 1,
25 1998 and July 31, 1998 that limited benefits for mental health services to a lifetime limit

1 which was less than the applicable lifetime limit for health services unrelated to mental
2 health services.

3 11. Sierra issued or renewed nine health benefits plans between January 1,
4 1998 and July 31, 1998 that limited benefits for mental health services to an annual
5 limit which was less than the applicable annual limit for health services unrelated to
6 mental health services.

7 12. The Examiners reviewed the enrollment files of 56 of 84 individual
8 enrollees where the Company placed a preexisting condition exclusion on the
9 enrollees and 255 of 255 claim files that were denied due to those preexisting
10 condition exclusions and found as follows:

11 a. Sierra failed in 15 enrollment files to apply credit for prior coverage
12 to reduce preexisting condition exclusions.

13 b. Sierra failed in five enrollment files to reduce the preexisting
14 condition limitation by the aggregate period of prior creditable coverage that applied to
15 the individual.

16 c. Sierra failed on eight claim files to fully disclose all pertinent
17 benefits under an insurance contract.

18 13. The Examiners reviewed 100 of 749 claims paid or denied under group
19 health conversion policies, 554 of 49,079 medical claims for services through non-
20 contracted providers and providers with contracts that contained no time frame for
21 payment, 300 of 59,238 medical claims for services through contracted providers, 50
22 of 224 group medical claims closed without payment, 33 of 33 life insurance death
23 claims, 165 of 664 dental services claims from non-contracted providers, 108 of 1,199
24 dental claims under indemnity coverage and 57 of 218 paid and denied prescription
25 claims processed during the time frame of the examination and found as follows:

1 a. Sierra failed to notify 57 first party claimants within 15 working
2 days after receipt of properly executed proofs of loss why more time was needed to
3 determine whether a claim should be accepted or denied.

4 b. Sierra failed to complete the investigation of 191 claims within 30
5 days after notification of claim.

6 c. Sierra failed to pay interest on 176 claims not paid within 30 days
7 after receipt of an acceptable proof of loss.

8 d. Sierra failed to acknowledge receipt of 502 claims within ten
9 working days of notification of claim.

10 e. Sierra failed to notify 451 first party claimants of acceptance or
11 denial of their claim within 15 working days after receipt of a properly executed proof of
12 loss.

13 14. Sierra failed to provide a "Notice of Insurance Information Practices" to
14 9,336 individual applicants that enrolled in group coverage during the time frame of the
15 examination.

16 15. The Examiners reviewed 20 of 20 employer group applications declined
17 during the time frame of the examination and found that Sierra failed to offer the
18 Arizona Basic Health Plan to two qualified employers applying for group health
19 insurance coverage.

20 16. The Examiners reviewed 87 of 3,897 individual underwriting files where
21 coverage was issued on the basis of individual requests for enrollment during the time
22 frame of the examination and found that Sierra failed to provide three applicants with a
23 Summary of Rights in the event of an adverse underwriting decision.

24 17. The Examiners reviewed 61 of 61 maternity related claims with diagnosis
25 codes for complications of pregnancy and found that Sierra failed on 7 claims to treat

1 complications of pregnancy the same as any other sickness or illness under its
2 contract.

3 18. The Examiners reviewed 37 of 37 claims denied due to the fact that the
4 maximum number of visits for back and spine treatment without a pre-authorization
5 had been reached and found that Sierra failed on three files to disclose all pertinent
6 benefits under an insurance contract.

7 19. The Examiners reviewed 21 of 21 claims reimbursed at the urgent benefit
8 level because the services did not meet the criteria of emergency services and found
9 that Sierra failed on nine files to disclose pertinent benefits under an insurance
10 contract.

11 20. The Examiners reviewed 46 of 46 claims denied due to the fact that the
12 time for filing a claim had expired and found that Sierra failed on four files to disclose
13 all pertinent benefits under an insurance contract.

14 21. The Examiners reviewed six of six claims denied on the basis that the
15 services rendered were not medically necessary on an emergency basis and found
16 that Sierra failed on six files to have a physician review the medical necessity of the
17 treatment rendered.

18 **CONCLUSIONS OF LAW**

19 1. Sierra violated A.R.S. §20-461(A)(1) and A.A.C. R20-6-801(D)(1) by
20 failing to disclose all pertinent benefits under an insurance contract.

21 2. Sierra violated A.R.S. §20-461(A)(2), A.A.C. R20-6-801(E)(3) and the
22 1995 Order by failing to respond within ten working days to pertinent communications
23 concerning claims.

24 3. Sierra violated A.R.S. §20-461(A)(2) and A.A.C. R20-6-801(E)(1) by
25 failing to acknowledge a claim within ten working days.

1 4. Sierra violated A.R.S. §20-461(A)(3) and A.A.C. R20-6-801(G)(1)(b) by
2 failing to notify first party claimants under group conversion coverage, indemnity dental
3 coverage and prescription coverage within 15 working days after receipt of properly
4 executed proof of loss why more time was needed to accept or deny their claims.

5 5. Sierra violated A.R.S. §20-461(A)(3) and A.A.C. R20-6-801(F) by failing
6 to complete claims investigations within 30 days after notification of the claim.

7 6. Sierra violated A.R.S. §20-461(A)(5), A.A.C. R20-6-801(G)(1)(a) and the
8 1995 Order by failing to notify first party claimants of the acceptance or denial of
9 claims within 15 working days after receipt of properly executed proof of loss.

10 7. Sierra violated A.R.S. §20-462(A) and the 1995 Order by failing to pay
11 interest on non-contract claims not paid within 30 days after receipt of acceptable proof
12 of loss and by failing to pay interest on contract claims not paid within the time frame
13 set forth in the contract with the provider after receipt of acceptable proof of loss.

14 8. Sierra violated A.R.S. §20-2104(A) by failing to provide individual
15 enrollees with a Notice of Insurance Information Practices.

16 9. Sierra violated A.R.S. §20-2110(A) by failing to provide applicants for
17 insurance that were the subject of adverse underwriting decisions with Summaries of
18 Rights.

19 10. Sierra violated A.R.S. §20-2304(A) by failing to offer the Arizona Basic
20 Health Benefits Plan to qualified small employers.

21 11. Sierra violated A.R.S. §20-2309(A) by failing to provide renewal notices:
22 1) prior to the expiration of health benefits plans, 2) at least 60 days prior to the
23 expiration of health benefits plans and 3) that included an explanation of the extent to
24 which any increase in premium was due to actual or expected claims experience,
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1 12. Sierra violated A.R.S. §20-2310(A) by limiting coverage based on a
2 person's health status.

3 13. Sierra through its third party administrator violated A.R.S. §20-2310(B) by
4 failing to apply credit for prior coverage to reduce preexisting condition exclusions.

5 14. Sierra violated A.R.S. §20-2321(F) by issuing policy forms that required
6 prior authorization for hospital admission in connection with normal childbirth delivery.

7 15. Sierra violated A.R.S. §20-2322(B) & (C) by issuing policy forms to health
8 benefit plans after January 1, 1998 which limited benefits for mental health services to
9 lifetime and annual limits that were less than the applicable limits for health services
10 unrelated to mental health services.

11 16. Sierra through its third party administrator violated A.R.S. §20-2804(B) by
12 denying claims for emergency services without having a physician review the medical
13 necessity of the treatment rendered.

14 17. Sierra through its agents violated A.A.C. R20-6-201(C)(2) by issuing
15 advertising forms that referred to specific policy benefits but did not disclose the
16 exceptions, reductions and limitations affecting the basic provisions of the policy.

17 18. Sierra violated A.A.C. R20-6-201(C)(3)(a) by issuing advertising forms
18 that failed to disclose the extent to which any loss is not covered if the cause of such
19 loss is traceable to a condition existing prior to the effective date of the policy

20 19. Sierra violated A.A.C. R20-6-201(R)(1) by failing to provide the dates of
21 use of advertising forms and the extent of their distribution.

22 20. Sierra violated A.A.C. R20-6-209(F)(6) by failing to treat complications of
23 pregnancy the same as any other disease or illness under its policies and certificates.

24 21. Grounds exist for the entry of the following Order, in accordance with
25 A.R.S. §§20-220, 20-456 and 20-2117.

1 **ORDER**

2 **IT IS ORDERED THAT:**

3 1. Sierra Health and Life Insurance Company shall:

4 a. Comply with an Order by the Director.

5 b. Acknowledge within ten working days of receipt, pertinent
6 communications from claimants that reasonably suggest that a response is expected.

7 c. Maintain records of the manner and extent of the distribution of
8 advertising forms.

9 d. Issue advertising forms that, when referring to specific policy
10 benefits, disclose the exceptions and exclusions affecting the basic provisions of the
11 policy.

12 e. Issue advertising forms that disclose the extent to which any loss
13 is not covered if the cause of such loss is traceable to conditions existing prior to the
14 effective date of the policy.

15 f. Disclose to first party claimants all pertinent benefits, coverages,
16 or other provisions of an insurance policy.

17 g. Issue policy forms that do not deny, limit or condition coverage
18 based upon a person's health status.

19 h. Issue renewal notices that provide an explanation of the extent to
20 which any increase in premium is due to the actual or expected claims experience of
21 the individuals covered under the employer's health benefit plan.

22 i. Send written renewal notices to renewing groups at least 60 days
23 prior to the expiration of their health benefits plan.

24 j. Issue policy forms that do not require prior authorization for
25 hospital admission in connection with normal childbirth delivery.

1 k. Issue policy forms to large groups that do not impose lifetime or
2 annual limits on mental health benefits that are less than the applicable lifetime or
3 annual limit for health services unrelated to mental health services.

4 l. Apply credit for prior coverage to reduce preexisting condition
5 exclusions.

6 m. Acknowledge and act promptly upon non-provider claims within
7 ten working days after receipt of notification of claim.

8 n. Complete non-provider claims investigations within 30 days after
9 notification of claim.

10 o. Accept or deny non-provider claims within 15 working days after
11 receipt of properly executed proof of loss.

12 p. Notify non-provider first party claimants within 15 working days
13 after receipt of properly executed proofs of loss why more time is needed to determine
14 whether a claim should be accepted or denied.

15 q. Pay interest on non-contracted claims not paid within 30 days after
16 receipt of an acceptable proof of loss and on contracted claims not paid within the time
17 frame set forth in the contract with the provider after receipt of an acceptable proof of
18 loss.

19 2. 90 days prior to resuming the marketing of group health insurance in
20 Arizona, Sierra shall submit to the Arizona Department of Insurance, for approval,
21 evidence that corrections have been implemented and communicated to the
22 appropriate personnel, regarding all of the items listed above in Paragraph 1 of the
23 Order section of this Consent Order. Evidence of corrective action includes but is not
24 limited to memos, bulletins, E-mails, correspondence, procedures manuals, print
25 screens and training materials.

1 3. Within 90 days of the filed date of this Order, Sierra shall perform a self-
2 audit of the following items and pay claims that may be identified for payment as a
3 result of the self audit plus interest at the rate of ten percent per annum from the date
4 the claim was received until the date of payment:

5 a. The nine insureds listed in Exhibit A attached to this Order to
6 determine if the 35 claims listed in Exhibit A may have been improperly denied
7 because of failure to apply credit for prior creditable coverage.

8 b. The 21 groups identified in Exhibit B attached to this Order to
9 determine if claims were incurred during the cancellation grace period that were
10 eligible for payment.

11 4. Within 90 days of the filed date of this Order, Sierra shall pay the
12 following claims where benefits were denied or reduced, plus interest at the rate of ten
13 percent per annum from the date the claim was received until the date of payment:

14 a. Claim numbers 9615604520, 9616507460 and 9616507461 that
15 were improperly denied.

16 b. Claim numbers 9528431952 and 97075548-02 that were
17 improperly denied on the basis of preexisting condition exclusions.

18 c. Claim numbers 97009304-02, 97016344-01, 97030416-01 and
19 97034016-03 that were not paid after receipt of prior creditable coverage from the
20 insured.

21 d. The ten claims listed in Exhibit C of this Order that were
22 improperly denied because there was evidence that prior coverage existed.

23 e. Claim numbers 98033772-01, 98007156-04, 98027032-01 and
24 98022976-01 that were improperly denied on the basis that the claims were not filed in
25 a timely manner.

1 f. The 7 claims listed in Exhibit D of this Order that were improperly
2 denied due to complications of pregnancy.

3 g. The nine claims listed in Exhibit E of this Order that were
4 improperly reimbursed at the urgent benefit level.

5 5. Within 90 days of the filed date of this Order, Sierra shall document to the
6 Department that it has paid interest on claims listed in Exhibit F of this Order. Interest
7 shall be calculated at the rate of ten percent per annum, from the date each claim was
8 received by the Company, to the date of payment.

9 6. Each payment made in accordance with Items 3, 4 and 5 above shall be
10 accompanied by a letter to the insured in a form previously approved by the Director.
11 A list of payments, giving the name and address of each party paid, the amount of the
12 payment, the amount of interest paid, and the date of payment, shall be provided to
13 the Department within 90 days of the filed date of this Order.

14 7. The Department shall be permitted, through authorized representatives,
15 to verify that Sierra has complied with all provisions of this Order.

16 8. Sierra shall pay a civil penalty of \$60,000 to the Director for deposit in the
17 State General Fund in accordance with A.R.S. §20-220(B). This civil penalty shall be
18 provided to the Market Conduct Examinations Section of the Department prior to the
19 filing of this Order.

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1 9. The Report of Examination of the Market Conduct Affairs of Sierra Health
2 and Life Insurance Company dated January 14, 1999, including the letter submitted in
3 response to the Report of Examination, shall be filed with the Department after the
4 Director has filed this Order.

5 DATED at Phoenix, Arizona this 3rd day of January, 2002.

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8 Charles R. Cohen
9 Director of Insurance

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EXHIBIT A
SELF-AUDIT OF PRIOR CREDITABLE COVERAGE AND PREEXISTING CLAIM
DENIALS
A.R.S. §20-2310(B)

<u>Insured's</u>	<u>GroupNumber</u>	<u>Unpaid Claim</u>
<u>Initials</u>		<u>Number</u>
GEH	40002016	97069889-03
LMA	40002015	97019376-01
		97019376-03
		97019376-04
		97019376-05
		97019376-07
		97019376-08
		97019376-09
		97019376-11
		97019376-12
		97004807-01
KTS	40002047	98007180-01
		98007180-02
		98007180-03
		98007180-04
		98007180-05
FFR	40002015	97064695-02
RRZ	40007001	97066365-01
		97066365-02
		97066365-03
TRD	40005022	97075548-01
DED	40002079	97041006-01

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EXHIBIT C
CLAIMS IMPROPERLY DENIED DUE TO FAILURE TO
APPLY CREDIT FOR PRIOR CREDITABLE COVERAGE
A.R.S. §20-2310(B)

Claim Number

98052302-01
98052302-02
98052302-04
98052302-05
97031781-01
97031781-02
97031781-03
97017701-01
97017701-02
97033262-01

10 Claims

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EXHIBIT D
CLAIMS DENIED FOR COMPLICATIONS OF PREGNANCY
A.A.C. R20-6-209(F)(6) and A.A.C. R20-6-801(D)(1)

Claim Number

9718206200
9726500360
9726501500
9727330770
9627406570
9715012860
9724807600

7Claims

EXHIBIT F
FAILURE TO PAY INTEREST ON CLAIMS THAT WERE NOT PAID WITHIN 30
DAYS AFTER RECEIPT OF ACCEPTABLE PROOF OF LOSS
A.R.S. §20-462(A)

<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>
9520814990	98025557-01	98007616-01	98016533-01
9522313730	98031738-01	97092872-02	98047799-01
9611604810	98031369-01	98009643-01	98061282-01
9521928930	98054074-01	97030987-04	98049873-01
9616208240	98029910-02	98012158-01	98016530-02
9523002470	98067380-01	97046695-01	98033271-01
9613004130	97017337-01	98013455-02	97092513-02
9635230100	97019101-03	98007225-02	98018250-01
9601827020	97023608-01	98018063-01	98005914-01
9523304750	97027285-01	98019881-02	98000427-03
9617636010	97029788-01	98021197-01	97090875-03
9722404300	97028024-01	98019090-03	97087665-02
9524202540	97030697-02	98022936-01	98018397-01
9631925270	97043617-01	98023965-01	97084186-03
9702319810	97043808-03	98025981-01	98033036-01
9526124490	97048037-01	98026658-01	98005035-01
9600833020	97038152-06	97030987-06	98022511-01
9635311920	97062310-01	97092266-02	98030040-01
9702311601	97046207-03	98049124-01	98064634-01
9708025910	97065045-01	97093596-01	97045438-01
9616215960	97055987-05	98030574-01	97046459-02
9616606720	97051693-02	98052692-01	97025113-02
9619308070	97063142-01	98030390-01	97051372-01

EXHIBIT F (Continued)

<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>	<u>Claim Number</u>
9633714970	97083942-01	98049423-01	97069945-01
9634607870	97084200-02	98028707-01	97070802-01
9533506660	97086281-01	98052694-01	97074214-01
9617911930	97065076-02	98040778-01	97093970-01
9616215870	97087730-01	98028711-01	97093989-02
97003522-01	97086676-04	98029798-01	97028415-02
97022086-01	97062216-03	98052382-01	97016787-04
97027243-03	97089546-01	98052998-01	97089416-02
97031676-01	97090195-01	98020687-01	98006994-01
97053611-02	97090421-01	98020842-01	97015352-05
97058813-01	97091365-01	98000413-04	97059310-03
97027702-19	97084181-02	97026681-15	98015421-01
97031022-05	97092465-01	98028272-01	98020579-01
97027702-27	97093087-01	98019731-01	98021158-01
97061258-04	97084248-02	98033164-01	98022582-01
97072107-02	97094270-01	98048357-01	98031916-01
97040808-04	97095022-01	98055934-01	98037168-01
97095581-01	98000727-01	98037683-01	98034476-02
97082056-05	98002638-01	98022504-02	98048980-01
98014646-01	98001838-02	98031464-01	98052869-01
98018412-02	97084976-03	98052610-01	98057086-01
Total Claims			176

1 **CONSENT TO ORDER**

2 1. Sierra Health and Life Insurance Company has reviewed the attached
3 Consent Order.

4 2. Sierra Health and Life Insurance Company admits the jurisdiction of the
5 Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and
6 consents to the entry of the Conclusions of Law and Order.

7 3. Sierra Health and Life Insurance Company is aware of its right to a
8 hearing, at which it may be represented by counsel, present evidence and cross-
9 examine witnesses. Sierra Health and Life Insurance Company irrevocably waives its
10 right to such notice and hearing and to any court appeals related to this Order.

11 4. Sierra Health and Life Insurance Company states that no promise of any
12 kind or nature whatsoever was made to it to induce it to enter into this Order and that it
13 has entered into this Order voluntarily.

14 5. Sierra Health and Life Insurance Company acknowledges that the
15 acceptance of this Order by the Director of Insurance, State of Arizona, is solely to
16 settle this matter against it and does not preclude any other agency or officer of this
17 state or its subdivisions or any other person from any other civil or criminal
18 proceedings, whether civil, criminal, or administrative, as may be appropriate now or in
19 the future.

20 6. Frank Collins, who holds the office of
21 Chairman of the Board of Sierra Health and Life Insurance Company, is
22 authorized to enter into this Order for it and on its behalf.

23 **SIERRA HEALTH AND LIFE INSURANCE COMPANY**

24 12/26/01
25 Date

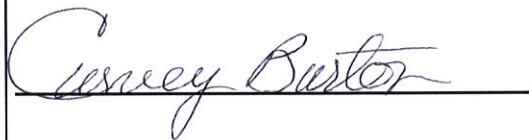
By: Frank Collins

1 COPY of the foregoing mailed/delivered
2 This 4th day of January 2002, to:

3 Sara Begley
4 Deputy Director
5 Mary Butterfield
6 Assistant Director
7 Consumer Affairs Division
8 Paul Hogan
9 Chief Market Conduct Examiner
10 Market Conduct Examinations Section
11 Alexandra Shafer
12 Assistant Director
13 Life & Health Division
14 Deloris E. Williamson
15 Assistant Director
16 Rates & Regulations Division
17 Steve Ferguson
18 Assistant Director
19 Financial Affairs Division
20 Terry Cooper
21 Manager
22 Fraud Unit

23 DEPARTMENT OF INSURANCE
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