



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
BOSTON MEDICAL CENTER HEALTH PLAN, INC.

Boston, Massachusetts

As of December 31, 2011

NAIC COMPANY CODE 13203

EMPLOYER ID NUMBER 04-3373331

For Informational Purposes Only

Boston Medical Center Health Plan, Inc.

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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May 24, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 176G, Section 10, an examination has been made of the financial condition and affairs of

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

at its home office located at Two Copley Place, Suite 600, Boston, Massachusetts, 02116-6597. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Boston Medical Center Health Plan, Inc. ("Company" or "BMCHP") has never had an examination. The current examination was conducted by the Massachusetts Division of Insurance ("Division") and covers the period from October 1, 2008 through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2008 through 2011. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. KPMG LLP ("KPMG") was engaged to perform certain agreed-upon procedures, which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2011. KPMG's Information Technology Advisory Services personnel were engaged to perform an Evaluation of Controls in Information Systems Questionnaire in a form substantially similar to the one established in the *NAIC Financial Condition Examiners' Handbook*. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

SUMMARY OF SIGNIFICANT FINDINGS

For a summary of findings contained within this report, refer to the "Summary of Recommendations" section on page 16. As this is the Company's first examination, there were no prior examination comments and recommendations.

COMPANY HISTORY

General

The Company was established by Boston Medical Center ("BMC") in 1997 as a 501(c)(3) not for profit organization. In July 1997, Boston Medical Center officially received approval from The Commonwealth of Massachusetts Division of Medical Assistance ("DMA") to establish a prepaid health plan. The plan, known as the Boston Medical Center Health Plan is specifically designed to allow BMC to continue to serve low income patients under the changes brought about under The Commonwealth of Massachusetts (the "Commonwealth") 1115 Medicaid waiver. BMCHP operates as a managed care organization that includes a delivery network, which includes BMC, 21 physician faculty practice plans affiliated with BMC and 15 community health centers also affiliated with BMC. BMCHP differs from other Medicaid ("MassHealth") managed care plans in the Commonwealth as it is one of only two provider-sponsored MassHealth plans approved by the Commonwealth.

BMC sought this approval from DMA as a means to continue to fulfill and expand its mission to provide healthcare to low income individuals. It was also a strategy to retain this large patient base and better serve them through managed care. Under BMCHP, all approved physician services, inpatient admissions, outpatient visits, prescriptions and over-the-counter medicines are covered for individuals who qualify for MassHealth benefits.

On April 5, 2006, the Massachusetts legislature passed legislation dramatically expanding coverage to the uninsured in Massachusetts. The legislation combines an individual mandate for coverage for those able to afford it with assessments on certain employers not providing coverage. The bill required individuals to obtain coverage by July 1, 2007 and created a sliding scale subsidy to enable lower-income individuals to purchase protection. In connection with this legislation, the Commonwealth Health Insurance Connector was established to regulate these new insurance programs. BMCHP was one of four managed care organizations that had the exclusive right to offer the Commonwealth Care Health Insurance Program until July 2009, at which time other health insurers were allowed into the market.

BMCHP is an affiliate of BMC. BMC capitalized BMCHP in 1997 with \$10 million received from the Commonwealth. In fiscal year 2001, BMCHP transferred \$7.5 million back to BMC. BMC's President and CEO serves as President of BMCHP and BMC's Vice President for Federal, State and Local Programs is also BMCHP's Vice President. The Board of Trustees of BMC are the same for BMCHP. BMCHP holds separate Board of Trustees meetings.

Dividends to Stockholders

The Company paid a dividend to its stockholder, BMC, only during the year ended December 31, 2011 of \$23,000,000 and had no dividend payable at December 31, 2011.

CORPORATE RECORDS

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Trustees.

Articles of Incorporation and Bylaws

The Articles of Incorporation ("Articles") of the Company have not been amended since incorporation on June 12, 1997. The bylaws of the Company approved on June 11, 1997 and were amended on April 13, 2010 to reflect clerical changes of the Company. The Articles and the bylaws were read and reviewed.

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest in accordance with Question 18 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The examination team requested copies of all conflict of interest questionnaires for each of the years under examination. For those completed forms that were made available to the examination team, no discrepancies were noted in their responses. Please see the Summary of Comments and Recommendations Section of the report on page 16 for recommendations relating to the retention of conflict of interest questionnaires.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

Board of Trustees

According to the bylaws, the Company's property, business and affairs shall be managed by a Board of Trustees which may exercise all of the powers of the Company. The Board shall consist of those persons serving from time to time as the Board of BMC. Any trustee removed from the Board of BMC in accordance with the bylaws of BMC is thereby removed from the Board of the Company. Any trustee may resign from the Board of the Company by resigning from the Board of the BMC, in accordance with the bylaws of the BMC. Vacancies in the Board shall be filled and removal of individuals from the Board shall be effected in accordance with the provisions of the bylaws of BMC with respect to vacancies and removals of trustees of BMC. The Board shall have and may exercise the powers of the trustees notwithstanding any vacancies in their numbers.

At December 31, 2011, the Company's Board of Trustees consisted of the following:

<u>Name of Trustee</u>	<u>Title/Occupation</u>
Edmond English	Chairman, Boston Medical Center Board of Trustees, Chief Executive Officer Bob's Discount Furniture
David A. Passafaro	Vice President and Director of Business Affairs William A. Berry & Sons, Inc.
Kathleen Walsh	President and CEO Boston Medical Center
Joel M. Abrams	Executive Director Dorchester House Multi-Service Center
Thomas Alperin	President and Partner National Development
David Coleman, M.D.	Physician-In-Chief and Chairman of the Department of Medicine Boston Medical Center
Randi Cutler	Certified Financial Planner and Investment Advisor
Gerard Doherty, M.D.	Surgeon in Chief, Boston Medical Center
Susan Donahue	Education & Non-profit Consultant
Christine Dunn	Principal, Dunn Associates
Paul Egerman	Retired CEO eScripton
Barbara Ferrer, Ph.D.	Executive Director Boston Public Health Commission
Lisa Guscott	President and CEO Long Bay Management Company
John Hailer	President and CEO, US and Asia Natixis Global Asset Management
William Halpin	Executive Director South Boston Community Health Center
Thea James, M.D.	President of the Medical-Dental Staff Boston Medical Center
Peggy Koenig	Managing Partner ABRY Partners LLC
Alyce J. Lee	Advisor for Boston Mayor Thomas Menino
Steven D. Levy	CEO of Pismo Investments
Mark Nunnally	Managing Director Bain Capital Partners, LLC, Vice-Chair, Boston Medical Center Board of Trustees
James Phalen	Executive Vice President, State Street Corp.
Martha Samuelson	President & CEO, Analysis Group
Richard Slifka	Treasurer, Global Petroleum Corporation
James O. Taylor	CMO (Emeritus), East Boston Neighborhood Health Center
Ronald Walker, II	President & Founding Partner, Next Street Financial, LLC
Azzie Young, Ph.D.	Executive Director Mattapan Community Health Center

Boston Medical Center Health Plan, Inc.

Committees of the Board of Trustees

The bylaws allow that the directors may elect from their number an audit and compliance committee, a finance committee, a quality and clinical management committee, and such other committees as they may determine. In accord therewith the Board of Trustees appointed an investment committee to monitor the performance of the Company's investments. The membership of the investment committee consists of Martha Samuelson (Chair), Alyce J. Lee, Steven D. Levy, William Mankivsky, Joseph McNay, Thomas Shields, Richard Slifka, and John Valentine. The Board also appointed a compensation committee to review compensation benefit issues relating to the Company. The membership of the compensation committee consists of Richard Slifka (Chair), Edmond English, Lisa Guscott, John Hailer, Alyce J. Lee, and Kate Walsh (staff).

Officers

According to the Company's bylaws, the Board of Trustees shall elect the officers of the Company. The officers of the Company shall be the chairman of the Board of Trustees, the president, the treasurer, the clerk, and the vice chairman of the Board of Trustees.

Officers of the Company at December 31, 2011, in addition to those directors above are as follows:

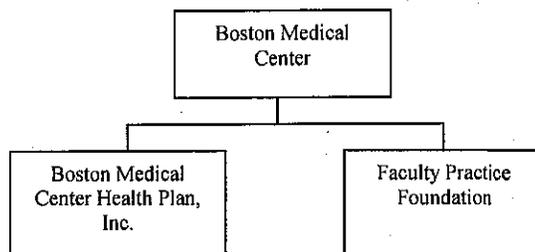
<u>Name of Officer</u>	<u>Title</u>
Edmond English	Chairman of the Board
David A. Passafaro	Vice Chair of the Board
Kathleen Walsh	President, Boston Medical Center
Thomas Traylor	Treasurer, Vice President
Susan Coakley	Clerk

Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 176G, Section 28 and Regulation 211 CMR 7.00. BMC is the "ultimate controlling person" for the Company.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2011 is illustrated below:



Transactions and Agreements with Subsidiaries and Affiliates

At December 31, 2011, 2010, 2009, and 2008, BMCHP owed BMC \$377,000, \$22,192,000, \$10,652,000 and \$10,864,000, respectively. Also, at December 31, 2011 and 2010, BMCHP owed BMC \$9,077,000 and \$8,165,000, respectively, which was included in health care claim reserves as of December 31, 2011 and 2010. BMCHP was allocated \$206,000 of expenses, in 2011, 2010, 2009, and 2008 related to the time spent by BMC employees on behalf of BMCHP.

BMCHP incurred \$92,815,000, \$95,185,000, \$83,416,000 and \$89,559,000 in claims expense related to BMC for the years ended December 31, 2011, 2010, 2009, and 2008, respectively, related to medical services provided by BMC to BMCHP members. These amounts have been included in healthcare benefits in the statements of income.

BMCHP incurred \$11,296,000 and \$8,782,000 in claims expense related to the Faculty Practice Foundation (the "Foundation") for the years ended December 31, 2011 and 2010, respectively, related to medical services provided by the Foundation to BMCHP members. These amounts have been included in the healthcare benefits in the statement of income. Also, as of December 31, 2011 and 2010, BMCHP owed the Foundation \$744,000 and \$393,000, respectively, which was included in health care claim reserves.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and the policies were in force as of December 31, 2011.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Defined Contribution Plan

BMCHP has a defined contribution retirement plan ("DC Plan") under Section 401(k) of the Internal Revenue Code established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who choose to participate, and requires BMCHP to match employees' contributions up to specified limitations. Participants are 100% vested in their deferred contributions and rollover contribution accounts immediately plus actual earnings thereon. After six months of service, employees are eligible for a company match according to a pre-determined formula. BMCHP contributions under this DC Plan were \$984,000 in 2011, \$699,000 in 2010, \$814,000 in 2009, and \$738,000 in 2008.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the Commonwealth of Massachusetts. BMCHP is headquartered in Boston, Massachusetts and offers a state-wide service area, excluding Martha's Vineyard and Nantucket.

GROWTH OF COMPANY

The growth of the Company for the years 2008 through 2011 is shown in the following schedule, which was prepared from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Premium Income</u>
2011	\$ 391,469,350	\$ 98,180,507	\$ 293,288,843	\$ 1,296,434,624
2010	348,085,082	117,862,527	230,222,555	1,226,942,465
2009	271,989,900	132,431,792	139,558,109	1,139,112,319
2008	271,695,474	107,050,240	164,645,234	1,090,465,465

LOSS EXPERIENCE

Provider Contracts

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with physician providers and other health care providers. For all purposes, physician providers and such other organizations or individuals are and shall be deemed to be independent contractors with the Company, and shall not be characterized as officers, employees or agents of the Company.

The agreements are in compliance with Massachusetts statutes and regulation 211 CMR 52.00.

Unpaid Claims

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities ("UCL") as of December 31, 2011 and prior periods. For December 31, 2011, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. As the BMCHP business pays fairly quickly, the range of estimates for the December 31, 2011 UCL is narrow and the actuarial estimates are similar to BMCHP's estimates with hindsight through January 2013.

BMCHP made a separate provision for Loss Adjustment Expenses / Claim Adjustment Expenses in 2011 and the resulting expense percentage levels used are within industry norms.

Based upon KPMG's review, the UCL as of December 31, 2011 appears to be fairly stated but conservative. KPMG noted that some conservatism is not unreasonable given the exposure to factors that impact the reserves and cause uncertainty when developing reserve estimates. The amount of conservatism in the December 31, 2011 reserves appears to be consistent with current industry results.

The calculation indicated no premium deficiency reserve was required as of December 31, 2011.

REINSURANCE

Ceded Reinsurance

All of the Company's capitation revenue earned during the period under Exam and events subsequent is generated from enrollment in the prepaid health plans established by MassHealth and the Commonwealth Health Insurance Connector. The Company maintains a stop loss program with the Connector for all of their product types. Since 2011, the Company also has a stop loss program with MassHealth for just product type RC 7. According to the Company, there has never been a question about risk transfer from its auditors or actuaries for either of these reinsurance agreements. Reinsurance activity at the Company during the period under review appears to be limited and the reinsurance balances (receivables or payables) were immaterial for 2011, 2010, 2009, and 2008.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. Testing of key underwriting and claim internal controls was performed. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network, Wide Area Network and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted.

Boston Medical Center Health Plan, Inc.

The books and records of the Company are audited annually by PricewaterhouseCoopers LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2011 are as follows:

<u>Description of Deposit</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
U.S. Treasury Note, 0.125%, 8/31/2013 Maturity	Massachusetts Insurance Licensing Requirement	\$ 998,880	\$ 998,666

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FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2011

Statement of Revenue and Expenses for the Year Ended December 31, 2011

Statement of Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended December 31, 2011

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Boston Medical Center Health Plan, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2011

	Per Company	Examination Changes	Per Examination
Assets			
Bonds	\$212,871,732	\$0	\$212,871,732
Common Stocks	\$61,055,856		61,055,856
Cash, cash equivalents and short-term investments	110,430,369		110,430,369
Subtotals, cash and invested assets	384,357,957	0	384,357,957
Investment income due and accrued	624,951		624,951
Electronic data processing equipment and software	294,128		294,128
Aggregate write-ins for other than invested assets	6,192,314		6,192,314
Total Assets	\$391,469,350	\$0	\$391,469,350
Liabilities, Capital and Surplus			
Claims unpaid	\$74,694,634	\$0	\$74,694,634
Accrued medical incentive pool and bonus amounts	\$1,613,871		\$1,613,871
Unpaid claim adjustment expense	2,522,000		2,522,000
Aggregate health policy reserves	2,935,857		2,935,857
General expense due or accrued	13,690,970		13,690,970
Amounts due parent, subsidiaries and affiliates	377,307		377,307
Aggregate write-ins for other liabilities	2,345,868		2,345,868
Total Liabilities	98,180,507	0	98,180,507
Unassigned funds (surplus)	293,288,843		293,288,843
Total capital and surplus	293,288,843		293,288,843
Total liabilities, capital and surplus	\$391,469,350	\$0	\$391,469,350

Boston Medical Center Health Plan, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2011

	Per Company	Examination Changes	Per Examination
Member months	2,939,892	0	2,939,892
Net premium income	\$1,296,434,624	\$0	\$1,296,434,624
Risk Revenue	(2,664,008)		(2,664,008)
Total revenue	1,293,770,616	0	1,293,770,616
Less:			
Hospital/medical benefits	722,884,486		722,884,486
Other professional services	121,398,634		121,398,634
Emergency room and out-of-area	108,010,385		108,010,385
Prescription Drugs	187,004,362		187,004,362
Incentive pool, withhold adjustment & bonus amounts	2,219,471		2,219,471
Less: Net reinsurance recoveries	3,736,848		3,736,848
Total hospital and medical	1,137,780,490	0	1,137,780,490
Claims adjustment expense	40,276,191		40,276,191
General administrative expense	37,836,763		37,836,763
Total underwriting deductions	1,215,893,444	0	1,215,893,444
Net underwriting gain	77,877,172	0	77,877,172
Net investment income earned	5,252,151		5,252,151
Net realized capital gains (losses)	(197,930)		(197,930)
Net investment gains or (losses)	5,054,221	0	5,054,221
Aggregate write-ins for other income or expenses	0	0	0
Net income or (loss) after capital gains tax and before all other federal income taxes	82,931,393		82,931,393
Net Income	\$82,931,393	\$0	\$82,931,393

Boston Medical Center Health Plan, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2011

	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Surplus as regards policyholders, December 31 prior year	\$230,222,555	\$0	\$230,222,555
Net income	82,931,393		82,931,393
Change in nonadmitted assets	3,134,895		3,134,895
Dividends to stockholders	<u>(23,000,000)</u>		<u>(23,000,000)</u>
Net change in capital and surplus	<u>63,066,288</u>	<u>0</u>	<u>63,066,288</u>
Surplus as regards policyholders, December 31 current year	<u>\$293,288,843</u>	<u>\$0</u>	<u>\$293,288,843</u>

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Boston Medical Center Health Plan, Inc.
 Reconciliation of Capital and Surplus
 For Each Year in the Four Year Period Ended December 31, 2011

	2011	2010	2009	2008
Capital and surplus, December 31 prior year	<u>\$230,222,555</u>	<u>\$139,558,109</u>	<u>\$164,645,234</u>	<u>\$152,016,003</u>
Net income (loss)	82,931,393	81,247,846	(44,320,424)	56,714,050
Change in non admitted assets	3,134,895	9,416,600	19,233,299	(44,084,819)
Dividends to stockholders	(23,000,000)	0	0	0
Net change in capital and surplus	<u>63,066,288</u>	<u>90,664,446</u>	<u>(25,087,125)</u>	<u>12,629,231</u>
Capital and surplus, December 31 current year	<u><u>\$293,288,843</u></u>	<u><u>\$230,222,555</u></u>	<u><u>\$139,558,109</u></u>	<u><u>\$164,645,234</u></u>

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SUMMARY OF RECOMMENDATIONS

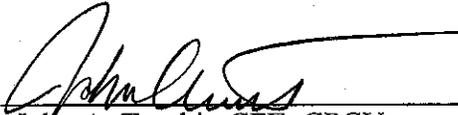
Recommended is the establishment of policies and procedures to ensure conflict of interest questionnaires are retained by the Company for an appropriate period of time. Although some original questionnaires may be returned to and retained by its Parent Company, Boston Medical Center, copies of these forms shall also be maintained by the Company's Legal and/or Compliance Departments.

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ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG LLP who participated in this examination hereby is acknowledged.



John A. Turchi, CFE, CPCU
Deputy Commissioner,
Financial and Market Regulation
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance

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