

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

***REPORT OF EXAMINATION OF THE***  
  
**NEIGHBORHOOD HEALTH PLAN, INCORPORATED**

**Boston, Massachusetts**  
**As of December 31, 2012**

**NAIC COMPANY CODE 11109**  
**EMPLOYERS ID NO. 04-2932021**

# NEIGHBORHOOD HEALTH PLAN, INCORPORATED

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**COMMONWEALTH OF MASSACHUSETTS**  
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April 24, 2014

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, Chapter 176G, Section 10, an examination has been made of the financial condition and affairs of the

**NEIGHBORHOOD HEALTH PLAN, INCORPORATED**

at its home office located at 253 Summer Street, Boston, Massachusetts, 02210-1120. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Neighborhood Health Plan, Inc. ("Plan", "Company" or "NHP") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2010 through December 31, 2012, 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, compliance with Statutory Accounting Principles and annual statement instructions and compliance with applicable Massachusetts laws and 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' pension and benefit plans, disaster recovery plan, 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's 2012 audit was performed by PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the 2012 calendar year. Prior to 2012, NHP was audited by Deloitte & Touche LLP who issued unqualified opinions for 2010 and 2011. The change in certified public accounting firms was the result of the Plan's affiliation with Partners HealthCare System, Inc. ("Partners") whereby the Plan became an affiliate of Partners as of October 1, 2012. As an affiliate of Partners, NHP changed auditors to become consistent with Partners. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, KPMG LLP was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2012. Additionally, the Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2009. The report contained the following Comments and Recommendations:

- The Health Care Receivable balance was overstated and it was noted that the Company did receive this amount in the third quarter of 2009 indicating a weakness in controls. The examination team verified that the receivable was properly stated for the current examination.
- It was recommended that the Board enact formal procedures to comply with current recommended corporate best practices. The Board did not have a written Executive Bonus Plan in place. The current examination received a copy of the plan and review of the Compensation Committee minutes verified approval of the 2012 bonuses.
- It was recommended that the Board draft and approve charters for all committees. This is also a recommendation for the current examination.
- All Conflict of Interest Statements should be completed and reviewed by the Board on an annual basis for all officers, directors and senior managers. The Company provided all Conflict of Interest Statements for the years under examination with no exceptions.

### **Current Examination Comments and Recommendations**

- It is recommended that the Plan properly disclose non-admitted receivable balances in the Annual Statement as required by Statutory Accounting Principles.
- Corporate governance best practices should be enacted to document and disclose all Member, Board and committee activities.

Refer to the Comments on Financial Statement Items section of this report, page 20 for further discussion on the comments noted above.

## **SUBSEQUENT EVENTS**

The Plan did not have any material Type I or Type II subsequent events requiring disclosure within this report.

## **COMPANY HISTORY**

The Plan was founded by the Massachusetts League of Community Health Centers (“League”) and the Greater Boston Forum for Health Action (“Forum”), and incorporated on May 22, 1986 under the provisions of Massachusetts General Law (“M.G.L.”), Chapter 180 for the purpose of arranging for the delivery of comprehensive health services on a prepaid basis. On November 9, 1987, the Division licensed the Plan to operate as a Health Maintenance Organization (“HMO”) under the provisions of M.G.L. c. 176G. The Plan is a non-profit HMO, which contracts with individuals, businesses and the Commonwealth of Massachusetts to provide health care coverage to individuals, employees, Medicaid beneficiaries and Exchange participants. Initially allowed to conduct business in greater Boston only, the Plan now operates throughout Massachusetts.

In January 1998, the Plan entered into an affiliation agreement with Harvard Pilgrim Health Care, Inc. (“HPHC”). Under the agreement, HPHC became the sole member of the Plan and agreed to provide up to \$9 million to the Plan over a three-year period. In addition, HPHC agreed to provide \$15 million in funding to the Community Health Centers as grants over a three-year period. Effective May 3, 2002, HPHC and NHP agreed to end their affiliation, whereby HPHC ceased to be the sole member of NHP.

In September 1999, Community Medical Alliance Clinical Group became a wholly owned affiliate of NHP. In January 2000, Community Medical Alliance Clinical Group changed its name to Community Medical Alliance, Inc., (“CMA”). CMA provides direct care and care management services to certain Plan members and is reimbursed by the Plan on a capitated basis.

In November 2003, the Plan received a \$10 million surplus note from Blue Cross Blue Shield of Massachusetts (“BCBSMA”). Interest payments were due semiannually for the first ten years of the note and principal payments commence on April 1, 2014.

NHP became an affiliate of Partners HealthCare System, Inc. on October 1, 2012. Partners is a Massachusetts not-for-profit corporation which operates two tertiary and six community acute care hospitals in Massachusetts. Partners also operates physician organizations and practices, a home health agency, nursing homes, and a graduate level program for health professionals. As part of the Affiliation Agreement, Partners contributed capital to NHP to retire the BCBSMA Surplus Note along with the associated accrued interest for \$10.1 million. Partners also contributed \$1.4 million to retire the Deferred Lease Liability on NHP’s home office rental property at 253 Summer Street.

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

As part of the Affiliation Agreement with Partners, NHP adopted amended and restated bylaws in 2012. NHP also restated their Articles of Organization which names Partners as the sole member of the corporation.

The 2009 bylaws and Articles of Incorporation and amendments that were in effect for the majority of the examination period were read and reviewed. Based upon the reading of the bylaws and Articles of Incorporation and amendments thereto, the Plan is operating substantially in compliance with its bylaws with the exception of not electing required committees as noted within the Management and Control section of this report.

### **Annual Meeting of Members**

The Plan is a not-for-profit corporation. Following the affiliation with Partners, Partners became the sole member of the Corporation. The 2012 revised bylaws state that the annual meeting of the member shall be held the first Friday of July each year unless otherwise determined by the Member.

### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors for the period under statutory examination were read and indicated that all meetings were held in accordance with the Plan's bylaws and the laws of the Commonwealth of Massachusetts. The Board minutes contained all required votes and authorizations.

### **Conflict of Interest Procedures**

The Plan has adopted a policy statement pertaining to conflict of interest as indicated in response to Question 18 of the General Interrogatories of the Annual Statement. The Plan 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 conflict of interest questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies noted in the responses.

### **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. c.175 ss.180M-180Q.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

According to the bylaws, the Plan shall be managed by the Board of Directors who shall manage the business and affairs of the Plan. The Board of Directors shall consist of thirteen directors with one director being the President and Chief Executive Officer of NHP, who shall serve *ex officio*. Twelve other members will be elected by the Partners Board of Directors. Eight elected directors (one of whom will be a sitting member of Partners Board of Directors) will be nominated by Partners after consultation with a designated representative of the Health Center Directors. Four elected directors ("Health Care Directors") will be community health center chief executive officers or other community health center leaders who are nominated by the President and Chief Executive officer of NHP and the Chief Executive Officer of the Massachusetts League of Community Health Centers.

The 2012 revised bylaws specify the board shall meet six times per year and special meetings shall be held as may be considered necessary by the Member, the Chair, the President and CEO, or by a majority of the Board of Directors. The minutes of the Board of Directors meetings indicated that meetings were held nine times in 2010, seven times in 2011, and eight times in 2012. At any meeting of the Board of Directors, a majority of directors constitutes a quorum.

At December 31, 2012, the Board was comprised of thirteen members. The members' names and business affiliation were as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>
Matthew E. Fishman	Vice President, Community Health Partners HealthCare System
Joseph R. Betancourt, M.D.	Associate Professor of Medicine Harvard Medical School
Deborah C. Enos	President & Chief Executive Officer Neighborhood Health Plan
Richard Holbrook	Chairman, CEO and President Eastern Bank Corporation
James W. Hunt, Jr.	President and Chief Executive Officer Mass. League of Community Health Centers
Robert J. Ingala	Chief Executive Officer Greater Lawrence Family Health Center
Manuel Lopes	Deputy Chief Executive Officer East Boston Neighborhood Health Center

## Neighborhood Health Plan, Incorporated

Paulette Shaw Querner	Corporate VP, Community Health Centers Harbor Health Services, Inc.
G. Neal Ryland	Chairman of the Compensation Committee for the Massachusetts General Physicians Organization
Allen Smith, M.D.	President, Brigham and Women's Physicians Organization
Sharon Smith	Chairwoman of the Board of Trustees Partners Community Healthcare, Inc.
Valerie Stone, M.D.	Professor of Medicine Harvard Medical School
Steven J. Tringale	Tringale Health Strategies, LLC

### Officers

The bylaws provide that the officers of the Plan shall have a Chair, one or more Vice Chairs, a President and CEO, a Secretary and a Treasurer. The Directors may elect other officers at any time, while also specifying the title, powers, duties and term of office. The officers are elected at the first meeting of the Directors following each annual meeting and serve until the next meeting following the annual meeting.

The elected officers and their respective titles at December 31, 2012 are as follows:

<u>Name</u>	<u>Title</u>
Matthew Fishman	Chair and Director
Deborah Enos	President & Chief Executive Officer
Peter Markell	Treasurer
Garrett Parker	Chief Financial Officer
Frederic J. Marx	Secretary

### Committees of the Board

At the November 8, 2012 Board of Directors meeting, the Board voted to establish the following five committees: Audit Committee, Finance Committee, Patient Care Assessment Committee, Compensation Committee and Ad Hoc Strategic Planning Committee.

During the examination period, the following committees of the Board were in place or required to be in place.

#### Audit and Compliance Committee

The Audit Committee charter states the committee shall be comprised of not less than three Directors, a majority of whom qualify as Independent Directors. The Chairman of the Audit Committee is required to be an independent Director and shall be elected by the Board. The

## Neighborhood Health Plan, Incorporated

Audit and Compliance Committee is empowered to act on behalf of the Board on matters concerning general supervision and oversight of corporate accounting, the financial reporting processes and internal control systems of the Plan, and it shall engage the Plan's outside auditor. The charter requires the committee to meet at least four times annually. The Audit and Compliance Committee meeting minutes indicated that the committee met once in 2010 and once in 2012. Apparently the committee also met in 2011 but, no meeting minutes were provided.

### Finance Committee

The Board had a Finance Committee in place for the majority of the examination period. The committee advises the board on the Plan's financial goals, strategies and activities. The committee will review budgeting, performance monitoring, investments, and long-term financial strategy.

### Patient Care Assessment Committee

The Board appointed a Patient Care Assessment Committee, which is designated as a standing peer review committee, to perform such duties as the Directors may specify and as may be required by law.

### Conflict Review Committee

The bylaws stated that the Board shall elect a Conflict Review Committee each year to review all disclosures made under Section I.A.I. of the Conflict of Interest Policy. The Audit Committee may serve as the Conflict Review Committee if the board of directors so approves and the Plan chose to have the Audit Committee perform this function during the exam period.

### Contract Review Committee

The bylaws stated that the Board of Directors shall elect a Contract Review Committee composed exclusively of Directors of NHP who have no relationship with any related providers. The Plan did not provide any meeting minutes for this committee and no evidence was noted within the Board minutes that the Contract Review Committee was elected during the examination period.

### Holding Company

Amendment No.1 was filed to the 2012 Form B on file with the Massachusetts Division of Insurance. This amendment was filed as of October 1, 2012 stating that the Company became part of a new holding company system and is subject to the registration requirements of M.G.L. c. 175, Section 206C. Partners is the ultimate controlling person for the Plan.

Transactions and Agreements with Subsidiaries and Affiliates

As part of the Partners Affiliation Agreement, Partners has executed a Risk Based Capital ("RBC") Guaranty with the Plan pursuant to which Partners will guarantee that NHP shall have and maintain capital and surplus in the minimum amount equivalent to 300% of the Authorized Control Level RBC, as defined by the Division in 211 CMR 25.10.

All cash and investments of NHP will be managed by the Partners Treasury Office under a new Statement of Investment Policy approved by NHP's Board in consultation with the Partners Investment Committee.

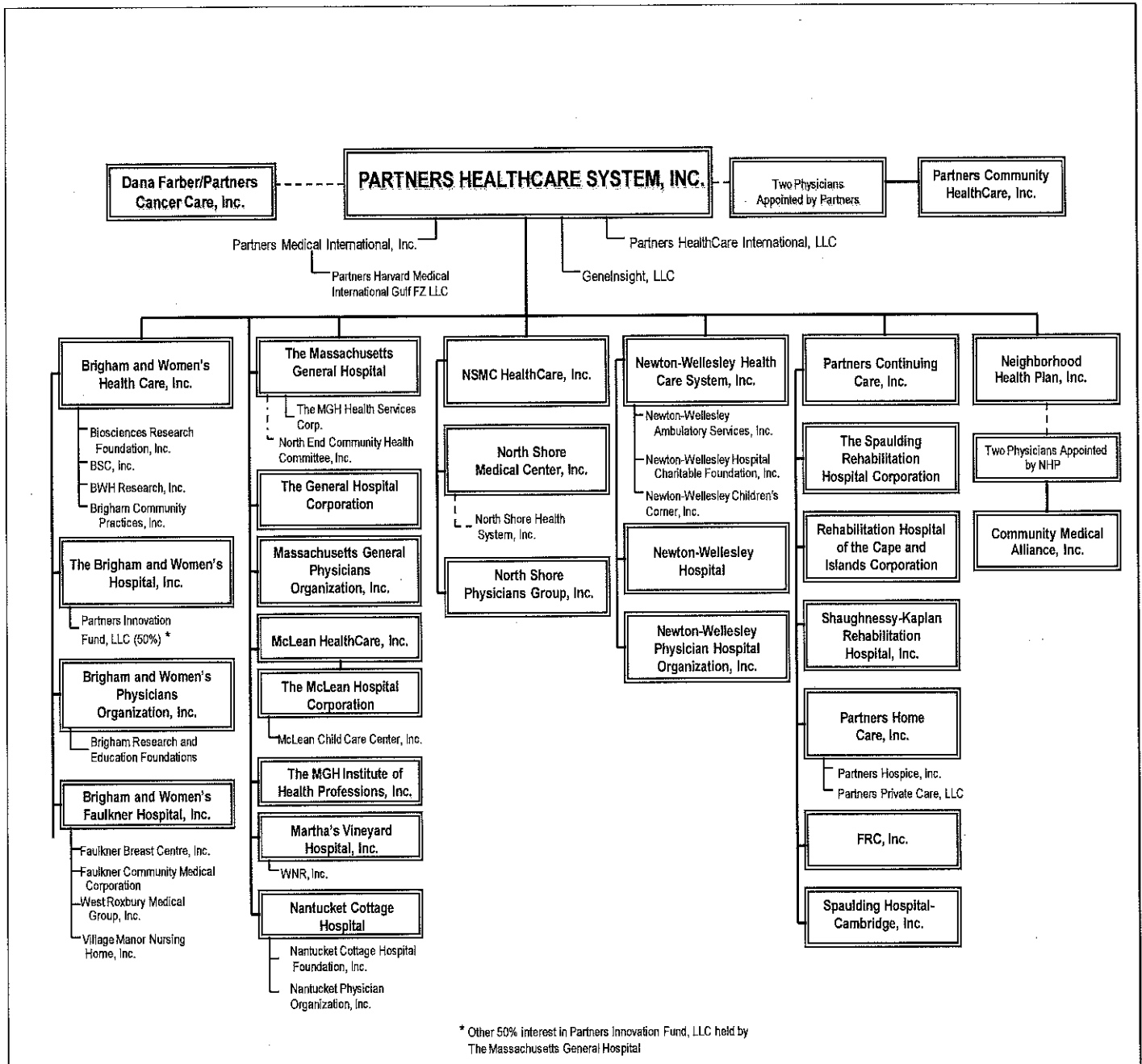
On the effective date of the affiliation, NHP established a Community Health Center ("CHC") Grant Program totaling \$6 million per year (the "Grant Amount") pursuant to which NHP will make grants to all community health centers that are part of the Massachusetts League of Community Health Centers. NHP will fund the CHC Grant Program each year with the return on the NHP investment portfolio that is in excess of 2.75%. If, in any given year, the excess return is less the Grant Amount, Partners will contribute to NHP the amount of the difference between the excess return and Grant Amount. Commencing in fiscal year 2015, in the event NHP's average operating income for the preceding three (3) fiscal year period is not breakeven or better, NHP may not make any CHC Grant without the prior written approval of Partners.

Effective September 1, 1999, the Plan entered into a ten-year agreement with their affiliate, Community Medical Alliance, Inc. to provide certain accounting, management, and other services. The agreement shall be automatically renewed for successive five-year terms unless either party gives notice of nonrenewal at least one hundred eighty days prior to expiration of the current term. CMA pays the Plan an amount equal to their Administrative Services budget in twelve equal monthly installments. The Plan is CMA's only source of revenue, other than occasional minor grant amounts.

# Neighborhood Health Plan, Incorporated

## Organization Chart

The ownership and relationship of the Plan and its affiliated companies as of year end 2012 is shown below.



### **FIDELITY BONDS AND OTHER INSURANCE**

The Plan maintains fidelity coverage with an authorized Massachusetts insurer which is consistent with M.G.L. Chapter 175, Section 60. The aggregate limit of liability coverage meets the NAIC's suggested minimum as of December 31, 2012.

The Plan has further protected its interests and properties by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2012.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

NHP offers various insurance plans, including life insurance, medical, dental and vision insurance, short-term and long-term disability to all eligible employees.

NHP offers an employee savings plan under Section 401(k) of the Internal Revenue Code. All full-time employees of the Company who are at least 18 years of age shall become participants in the savings plan immediately. NHP contributes 50% of each eligible participant's contribution up to a maximum of 4% of an employee's eligible compensation. Also, NHP may make a quarterly discretionary profit-sharing contribution, of 3% to 5% of employee's eligible compensation based on their length of service. The service requirement for participation in the Company matching contribution and the Company profit-sharing contribution is six months and one year, respectively.

### **TERRITORY AND PLAN OF OPERATION**

The Plan is licensed to transact business in Massachusetts and is not licensed in any other state.

The Plan is a Network-Model HMO, which arranges for the delivery of comprehensive health care services on a prepaid basis to covered members. Physicians providing services to Plan members are not employees of the HMO, but are affiliated through contractual relationships.

Approximately 63.5% percent of the Plan's business is derived from providing health care coverage to Medicaid beneficiaries through a Managed Care Organization contract with the Commonwealth of Massachusetts Division of Medical Assistance. The remaining business is with Commonwealth Connector and commercial with approximately 20.3% percent and 16.2% percent respectively.

### **GROWTH OF COMPANY**

The growth of the Plan for the years 2010 through 2012 is shown in the following schedule, which was prepared from the Plan's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premium Income</u>	<u>Capital &amp; Surplus</u>
2012	\$ 321,885,519	\$ 1,268,822,580	\$ 154,040,241
2011	282,947,679	1,212,464,731	140,953,279
2010	296,470,464	1,038,848,706	136,118,331

### **REINSURANCE**

The Plan has participated in an excess of loss reinsurance agreement with HCC Life Insurance Company, an authorized Massachusetts insurance company. Under the terms of this agreement, HCC Life Insurance Company will reimburse NHP for 90% of eligible expenses for commercial claims and medicaid except RCII in excess of \$700,000. The individual contract year maximum is \$2 Million for this contract.

NHP has chosen to participate in a stop-loss program for RCII members offered within its MassHealth Contract. The stop-loss program covers 80% of eligible costs in excess of \$250,000.

Within the Plan's Connector business is a stop loss contract option to reinsure the Commonwealth Care Members for 75% of eligible expenses in excess of \$150,000.

The Plan did not assume any reinsurance risk during the years under examination.

### **ACCOUNTS AND RECORDS**

The internal controls structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's Independent Certified Public Accountants. 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 (LAN), Wide Area Network (WAN) and Internet Controls. No material deficiencies were noted.

## Neighborhood Health Plan, Incorporated

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.

The 2012 books and records of the Company were audited by PricewaterhouseCoopers LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

### **STATUTORY DEPOSITS**

The statutory deposits of the Plan as of December 31, 2012, were as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Massachusetts	US Treasury Note 4.25% due 2014	\$ 1,000,000	\$ 1,073,147	\$ 1,074,340

**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, 2012:

Statement of Assets, Liabilities, and Capital and Surplus as of December 31, 2012

Statement of Revenue and Expenses for the Year Ended December 31, 2012

Statement of Capital and Surplus for the Year Ended December 31, 2012

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2012

Neighborhood Health Plan, Incorporated  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2012

<b>Assets</b>	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>	<u>Notes</u>
Bonds	\$ 28,600,885	\$ 0	\$ 28,600,885	
Common stocks	203,895,835		203,895,835	
Cash, cash equivalents and short-term investments	46,795,176		46,795,176	
Subtotals, cash and invested assets	279,291,896		279,291,896	
Investment income due and accrued	45,189		45,189	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	23,208,947		23,208,947	(1)
Reinsurance:				
Amounts recoverable from reinsurers	10,837,941		10,837,941	(1)
Electronic data processing equipment and software	1,339,740		1,339,740	
Health care and other amounts receivable	7,158,685		7,158,685	
Aggregate write-ins for other than invested assets	3,121		3,121	
 Total Assets	 <u>\$ 321,885,519</u>	 <u>\$ 0</u>	 <u>\$ 321,885,519</u>	

Neighborhood Health Plan, Incorporated  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2012

	Per Company	Examination Changes	Per Examination	Notes
<b>Liabilities</b>				
Claims unpaid	\$ 137,980,692	\$ 0	\$ 137,980,692	(2)
Unpaid claims adjustment expenses	2,900,738		2,900,738	(2)
Aggregate health policy reserves, including the liability of \$9,028,224 for medical loss ratio rebate per the Public Health Service Act	14,834,033		14,834,033	
Premiums received in advance	2,191,605		2,191,605	
General expenses due or accrued	9,532,066		9,532,066	
Amounts withheld or retained for the account of others	205,071		205,071	
Amounts due to parents, subsidiaries, and affiliates	201,073		201,073	
 Total Liabilities	<u>167,845,278</u>	<u>0</u>	<u>167,845,278</u>	
 Gross paid-in and contributed surplus	11,514,595		11,514,595	
Unassigned funds (surplus)	142,525,646		142,525,646	
Total capital and surplus	<u>154,040,241</u>	<u>0</u>	<u>154,040,241</u>	
 Total Liabilities, Capital, and Surplus	<u>\$ 321,885,519</u>	<u>\$ 0</u>	<u>\$ 321,885,519</u>	

Neighborhood Health Plan, Incorporated  
Statement of Income  
As of December 31, 2012

	Per Company	Examination Changes	Per Examination
Net premium income	\$ 1,268,822,580	\$ 0	\$ 1,268,822,580
Hospital and Medical:			
Hospital/medical benefits	865,684,851		865,684,851
Other professional services	115,572,839		115,572,839
Emergency room and out-of-area	35,844,242		35,844,242
Prescription drugs	167,731,324		167,731,324
Aggregate write-in for other hospital and medical:			
DMA & provider settlements	4,861,716		4,861,716
Subtotal	1,189,694,972		1,189,694,972
Less:			
Net reinsurance recoverables	11,554,527		11,554,527
Total hospital and medical	1,178,140,445		1,178,140,445
Claims adjustment expenses, including			
\$18,932,920 cost containment expenses	37,733,784		37,733,784
General administrative expenses	53,603,220		53,603,220
Increase in reserves for life and accident and health contracts	(3,746,131)		(3,746,131)
Total underwriting deductions	1,265,731,318		1,265,731,318
Net underwriting gain	3,091,262		3,091,262
Net investment income earned	4,412,031		4,412,031
Net realized capital gains	1,042,684		1,042,684
Net investment gains	5,454,715		5,454,715
Aggregate write-in for other income or expenses:			
Grant revenue	2,136,003		2,136,003
Total other income or (expenses)	2,136,003		2,136,003
Net income after capital gains tax and before all other federal and foreign income taxes	10,681,980		10,681,980
Federal and foreign income taxes incurred	0		0
Net Income	\$ 10,681,980	\$ 0	\$ 10,681,980

Neighborhood Health Plan, Incorporated  
Statement of Capital and Surplus  
For the Year Ended December 31, 2012

	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Capital and Surplus, December 31, 2011	\$ 140,953,279	\$ 0	\$ 140,953,279
Net income	10,681,980		10,681,980
Change in net unrealized capital gains	608,909		608,909
Change in non-admitted assets	281,478		281,478
Change in surplus notes	(10,000,000)		(10,000,000)
Surplus adjustments:			
Paid in	<u>11,514,595</u>		<u>11,514,595</u>
Net change in capital and surplus	<u>13,086,962</u>	<u>0</u>	<u>13,086,962</u>
Capital and Surplus, December 31, 2012	<u><u>\$ 154,040,241</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 154,040,241</u></u>

Neighborhood Health Plan, Incorporated  
Reconciliation of Capital and Surplus  
For Each Year in the Three-Year Period Ended December 31, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus as of December 31, prior year	\$ 140,953,279	\$ 136,118,331	\$ 121,965,021
Net income (loss)	10,681,980	3,753,078	10,705,389
Change in net unrealized capital gains (losses)	608,909		
Change in non-admitted assets	281,478	1,081,870	3,447,921
Change in surplus notes	(10,000,000)		
Surplus adjustments: Paid in	<u>11,514,595</u>		
Net change capital and surplus for the year	<u>13,086,962</u>	<u>4,834,948</u>	<u>14,153,310</u>
Capital and surplus as of December 31, current year	<u><u>\$ 154,040,241</u></u>	<u><u>\$ 140,953,279</u></u>	<u><u>\$ 136,118,331</u></u>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

**Note 1: Uncollected Premiums and Agents' Balances in Course of Collection Reinsurance: Amounts Recoverable from Reinsurers**

The balances of these accounts contain reserve or allowances for bad debt that should be categorized as non-admitted assets in accordance with Statutory Accounting Principles. The account Uncollected Premiums and Agents' Balances in Course of Collection contains \$10,304,953 of reserves that should be classified as non-admitted assets on page 2 of the Annual Statement. The receivable for Reinsurance, Amounts Recoverable from Reinsurers contains \$1,141,177 of reserves balances that should also be categorized as non-admitted assets.

**Note 2: Claims Unpaid**

In conjunction with the Division's regulatory examination of the Plan's financial statements, an independent certified public accounting firm, KPMG LLP, was retained by the Division to review the methodology and adequacy of the Unpaid Claim Liability of the Plan as of December 31, 2012, and to perform a review of the Plan's premium rating processes including the Plan's premium deficiency and rate adequacy analysis. A summary of findings is noted below:

- The Unpaid Claim Liability as of December 31, 2012 is fairly stated in aggregate in all material respects.
- The reserve is calculated in accordance with Massachusetts' laws and regulations and NAIC requirements.
- The Plan's booked reserves include a provision for Loss Adjustment Expenses in 2012, and the resulting expense percentages are within industry norms.
- The Plan's premium deficiency reserve calculation was found to be reasonable, with no additional premium deficiency reserves required at December 31, 2012.

**SUMMARY OF RECOMMENDATIONS**

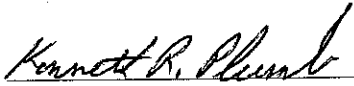
The Plan should enact corporate governance best practices to disclose and document all Board and Committee activities. The Plan could not provide meeting minutes for meetings of the Corporate Members and the Contract Review committee. All committee minutes and documentation of committee member's elections or appointments should be documented and approved by the Board of Directors. The Plan should also draft and approve charters for all committees to document their duties and responsibilities.

**ACKNOWLEDGEMENT**

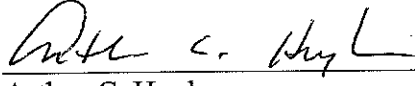
Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Plan during the examination.

The assistance rendered by the following Massachusetts Division of Insurance examiner who participated in this examination is hereby acknowledged.

Richard Looney, Financial Examiner III



Kenneth R. Plumb, CPA, CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance



Arthur C. Hughes  
Examiner-in-Charge  
Commonwealth of Massachusetts  
Division of Insurance