



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, INC.

Wellesley, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 0595

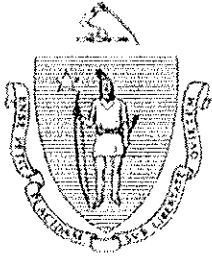
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HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, INC.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	2
Subsequent Events	3
Company History	3
General	3
Corporate Records	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	3
Conflict of Interest Procedures	4
Disaster Recovery and Business Continuity	4
Management and Control	4
Board of Directors	4
Committees of the Board of Directors	5
Officers	5
Affiliated Companies	5
Organization Chart	6
Transactions and Agreements with Subsidiaries and Affiliates	6
Fidelity Bonds and Other Insurance	7
Pensions, Stock Ownership and Insurance Plans	7
Territory and Plan of Operation	7
Treatment of Members	7
Growth of Company	7
Reserves	8
Reinsurance	8
Accounts and Records	8
Statutory Deposits	9
Financial Statements	10
Statement of Assets, Liabilities, Surplus and Other Funds	11
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	12
Statement of Income	13
Statement of Capital and Surplus	14
Reconciliation of Capital and Surplus	15
Acknowledgement	16



COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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May 22, 2015

Honorable Daniel R. Judson
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 and 211 CMR 43, an examination has been made of the financial condition and affairs of

HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, INC.

at its home office located at 93 Worcester Street, Wellesley, Massachusetts, 02481. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Harvard Pilgrim Health Care of New England, Inc. ("Company" or "New England") was last examined as of December 31, 2010 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, 2011 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current 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* ("Handbook"), the examination standards of the Division and with Massachusetts General Laws. 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 members 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 Deloitte & Touche LLP ("D&T"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2011 through 2013. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective. Representatives from the firm of KPMG LLP ("KPMG") were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Patient Protection and Affordable Care Act ("PPACA"). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable when the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014. The Company wrote health insurance subject to the PPACA in 2014 and on September 30, 2014 paid the annual health insurance industry fee of \$1.4 million. As of December 31, 2014, the Company has written health insurance subject to the PPACA assessment, expects to conduct health insurance business in 2015 and estimates its portion of the annual health insurance industry fee for 2015 to be \$2.6 million payable on September 30, 2015. This amount is reflected in special surplus as of December 31, 2014.

In December 2014, New England paid an extraordinary dividend to Harvard Pilgrim Health Care, Inc. ("HPHC, Inc."). This dividend was approved by the Division.

COMPANY HISTORY

General

Harvard Pilgrim Health Care of New England, Inc., a Massachusetts corporation, operates as a not-for-profit health plan, providing comprehensive health insurance, access to health care, and other related services in New Hampshire, primarily to group members and as of 2015 to individuals through contracts with physicians, established primary care and multi-specialty physician groups, hospitals, and other health care providers. New England also administers comprehensive health benefit plans for certain self-insured employer groups. New England was incorporated on November 16, 1978, and commenced operations as a health plan on October 1, 1980. New England is a subsidiary of Harvard Pilgrim Health Care, Inc. a Massachusetts corporation, operating as a not-for-profit health plan.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts.

Articles of Organization and Bylaws

The Articles of Organization were reviewed and there have been no changes since the prior exam. The bylaws were reviewed and there has been one change since the prior exam. On November 12, 2014, the bylaws were restated to add the language that the member shall have the

Harvard Pilgrim Health Care of New England, Inc.

powers provided by law, the Articles of Organization or these bylaws and shall exercise these powers by vote of its Board of Directors.

Conflict of Interest Procedures

HPHC, Inc., the parent of the Company, has adopted a conflict of interest policy statement. HPHC, Inc. has an established procedure for the disclosure to the Board 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.

Each Director of the Board shall annually deliver to the Board, at or about the time of the Annual Meeting, a true and complete conflicts of interest statement ("Conflicts Statement") in the form approved by the Board; provided that each officer listed below shall deliver only one Conflicts Statement regardless of the number of positions listed above that he or she holds. Each Director shall promptly update his or her most recent Conflicts Statement upon the occurrence of any event that makes the information contained in such Conflicts Statement no longer true or that would be required to be reported in such Conflicts Statement at the time it is delivered to the Board.

The Completed Conflict of Interest Disclosure Statements for Directors, Officers and Senior Managers were reviewed and no discrepancies were noted to contradict the Company's response to General Interrogatory 18 regarding conflicts of interests reported in the Company's 2013 Annual Statement.

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 Massachusetts General Laws ("M.G.L.") Chapter 175, Sections 180M through 180Q.

MANAGEMENT AND CONTROL

Board of Directors

The Board shall be composed of a number of Directors to be fixed each year by the member and designated at the annual meeting or at any special meeting in lieu thereof. Each Director shall serve until the next annual meeting or special meeting held in lieu thereof, and until his/her successor is chosen.

At December 31, 2013, the Board was comprised of three (3) Directors, which is in compliance with the Company's bylaws. Directors duly elected and serving at December 31, 2013, were as follows:

Harvard Pilgrim Health Care of New England, Inc.

<u>Name of Director</u>	<u>Title</u>
Eric H. Schultz	President and CEO, Harvard Pilgrim Health Care, Inc.
Thomas F. Maloney*	Interim Clerk and Interim Chief Legal Officer
Charles R. Goheen	Treasurer and CFO, Harvard Pilgrim Health Care, Inc.

*During 2014 Tisa Hughes became Chief Legal Officer and a Director.

Committees of the Board of Directors

The Board shall appoint from within or without its own membership such standing and special committees as it finds desirable in assisting in the management of the Company. Currently, there are no committees.

Officers

The Company's officers consist of a Chairperson, President, Treasurer and Clerk to serve for terms of one year or until their successors are elected and duly qualified. The Board may appoint such additional officers as it shall deem fit. The officers so elected and appointed shall be the officers of the Company. The President shall be the Chief Executive Officer of the Company.

The officers of the Company at December 31, 2013, are as follows:

<u>Name of Officer</u>	<u>Title</u>
Eric H. Schultz	President & CEO
Charles R. Goheen	Treasurer & CFO
Thomas F. Maloney*	Interim Clerk and Interim Chief Legal Officer
Michael S. Sherman	Medical Director
Beth A. Roberts	Executive Director

* During 2014 Tisa Hughes became Chief Legal Officer and Clerk.

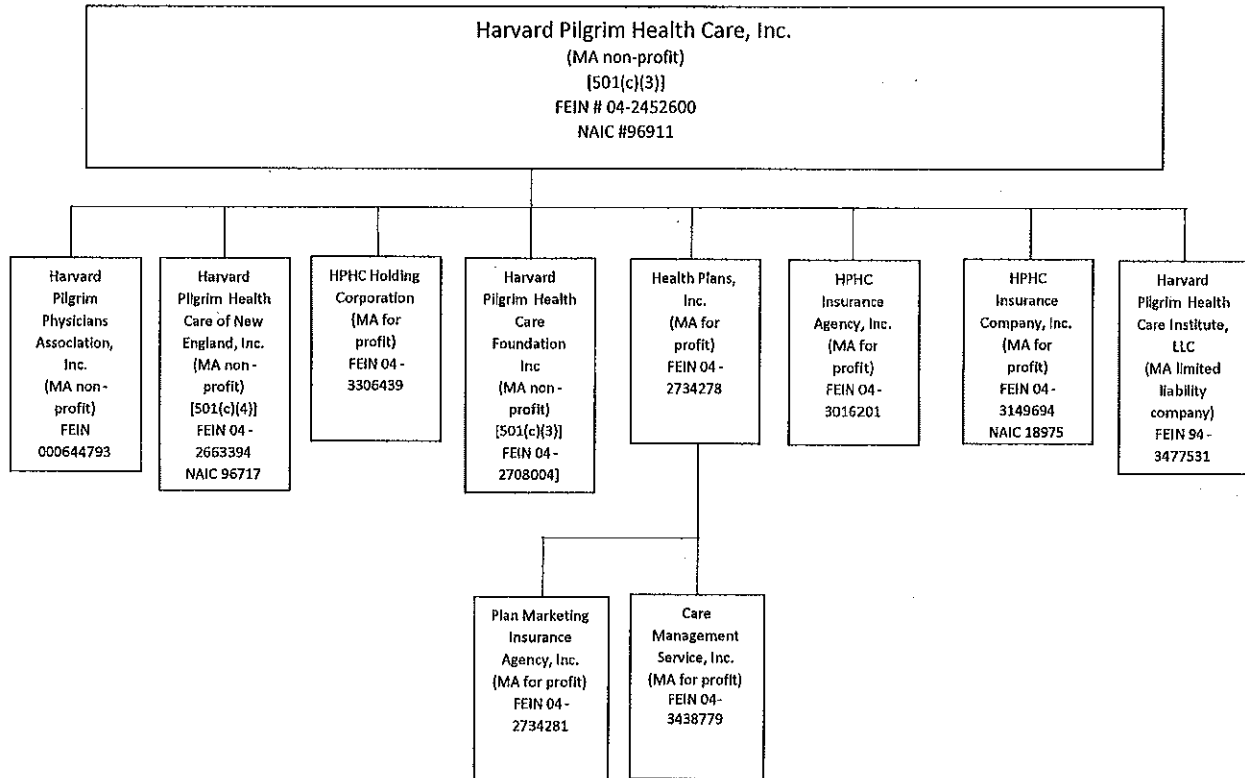
Affiliated Companies

As stated in the Health Maintenance Organization Holding Company System Form B and 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 176, Section 28 and Regulation 211 CMR 7.00. Ultimate control of the holding company system is held by HPHC, Inc.

Harvard Pilgrim Health Care of New England, Inc.

Organization Chart

At December 31, 2013, the following companies were part of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Guaranty and Indemnity Agreement

The Company, HPHC, Inc., and HPHC Insurance Company, Inc. participate in an intercompany Guaranty and Indemnity Agreement ("G&I Agreement"). In 2014 the agreement was amended to include Harvard Pilgrim Health Care of Connecticut, Inc. Under the terms of the G&I Agreement, each company guarantees the payment and performance of each other. In addition, each company is jointly and severally liable for all obligations that may arise out of this G&I Agreement. New England has no contingent liabilities related to this G&I Agreement as of December 31, 2013.

Administrative Services Agreements

The Company has a Management and Medical Services Agreement ("MMSA") with HPHC, Inc., which provides for an allocation of hospital and medical administrative costs from Harvard Pilgrim to the Company. Administrative expenses are charged to New England based on Harvard Pilgrim's departmental cost allocation methodology.

FIDELITY BONDS AND OTHER INSURANCE

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

In addition to the bond insurance, the Company 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, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any retirement benefit plans or other postretirement benefit plans as the Company has no employees.

TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to write business in Massachusetts and in New Hampshire.

Treatment of Members

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to Members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

GROWTH OF COMPANY

The growth of the Company for the years 2011 through 2013 is shown in the following schedule, which was prepared with data from the Company's annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2011	\$ 70,058,383	\$ 26,024,730	\$ 44,033,653
2012	72,883,560	22,793,538	50,090,022
2013	84,830,307	25,388,586	59,441,721

RESERVES

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities ("UCL") as of December 31, 2013 and prior periods. For December 31, 2013, 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. The actuarial estimates, as determined by KPMG Health Actuaries, indicate that New England's UCL are reasonable as of December 31, 2013.

The Company's premium deficiency reserve calculation was reviewed and found to be reasonable. The calculation indicated that no premium deficiency reserves were required as of December 31, 2013. Based on KPMG's review, the UCL as of December 31, 2013 appears to be fairly stated.

REINSURANCE

The Company carries reinsurance against unexpectedly high medical expenses incurred on a per-member basis. Under a reinsurance agreement that is currently in place, the Company is reimbursed 100% of certain hospital inpatient, outpatient, and pharmacy claims in excess of the policy deductible, which is \$1,500,000. The maximum recoverable under the reinsurance agreement is \$2,000,000 per member per policy period.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; premiums and underwriting; reserves and claims; reinsurance ceded; taxes, related parties, expenses and other liabilities and surplus. No material deficiencies were noted. The Company's claim inventory was tested on a sample basis for completeness and accuracy. No material errors or exceptions were detected.

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

Harvard Pilgrim Health Care of New England, Inc.

Controls, Contingency Controls, Personal Computer, Local Area Network ("LAN"), Wide Area Network ("WAN") 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.

The books and records of the Company are audited annually by D&T, independent certified public accountants, in accordance 211 CMR 26.00.

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2013 are as follows:

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	U.S. Treasury Bond 6.375% Due 8/15/27	\$1,000,000	\$1,191,726	\$1,324,220
New Hampshire	U.S. Treasury Bond 6.375% Due 8/15/27	1,500,000	1,787,589	1,986,330
		<u>\$2,500,000</u>	<u>\$2,979,315</u>	<u>\$3,310,550</u>

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2013

Harvard Pilgrim Health Care of New England, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 65,545,934	\$ 0	\$ 65,545,934
Cash & short term investments	12,274,408		12,274,408
Receivables for securities	5,750		5,750
Subtotals, cash and invested assets	77,826,092	0	77,826,092
Investment income due and accrued	399,705		399,705
Premiums and considerations:			
Uncollected premiums and agents' balances			
in course of collection	1,819,519		1,819,519
Reinsurance:			
Amounts recoverable from reinsurers	182,343		182,343
Amounts receivable relating to uninsured plan	2,947,127		2,947,127
Receivables from parent, subsidiaries and affiliates	467,179		467,179
Health care and other receivables	1,188,342		1,188,342
Total assets	<u>\$ 84,830,307</u>	<u>\$ 0</u>	<u>\$ 84,830,307</u>

Harvard Pilgrim Health Care of New England, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Liabilities			
Claims unpaid	\$ 14,264,209	\$ 0	\$ 14,264,209
Accrued medical incentive pool and bonus amounts	460,000		460,000
Unpaid claims adjustment expense	172,745		172,745
Aggregate health policy reserves	157,000		157,000
Premiums received in advance	3,669,869		3,669,869
General Expenses due or accrued	4,373,569		4,373,569
Liability for amounts held under insurance plans	2,291,194		2,291,194
Total liabilities	<u>25,388,586</u>	<u>0</u>	<u>25,388,586</u>
Gross paid in and contributed surplus	25,000,000		25,000,000
Unassigned surplus	<u>34,441,721</u>		<u>34,441,721</u>
Total capital and surplus	<u>59,441,721</u>	<u>0</u>	<u>59,441,721</u>
Total liabilities capital, and surplus	<u>\$ 84,830,307</u>	<u>\$ 0</u>	<u>\$ 84,830,307</u>

Harvard Pilgrim Health Care of New England, Inc.

Statement of Income
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Member Months	505,397		505,397
Net premium income	\$230,750,301		\$230,750,301
Total revenues	230,750,301	\$ 0	\$ 230,750,301
Hospital and Medical:			
Hospital/medical benefits	135,713,853		135,713,853
Other professional services	6,419,019		6,419,019
Outside referrals	1,722,316		1,722,316
Emergency room and out-of-area	5,646,968		5,646,968
Prescription drugs	31,528,777		31,528,777
Incentive pool , withhold adjustments and bonus amounts	2,548,667		2,548,667
Subtotal	183,579,600	0	183,579,600
Less:			
Net reinsurance recoveries	624,109		624,109
Total hospital and medical	182,955,491	0	182,955,491
Claims adjustment expenses	5,642,240		5,642,240
General administrative expenses	30,227,067		30,227,067
Increase in reserves for life and accident and Health contracts	157,000		157,000
Total underwriting deductions	218,981,798	0	218,981,798
Net underwriting gain	11,768,503	0	11,768,503
Net investment income earned	1,529,068		1,529,068
Net realized capital gains less capital gains tax	30,018		30,018
Net investment gains	1,559,086	0	1,559,086
Net income, after capital gains tax and before all other federal income taxes	13,327,589	0	13,327,589
Federal and foreign income taxes incurred			
Net income	\$ 13,327,589	\$ 0	\$ 13,327,589

Harvard Pilgrim Health Care of New England, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus December 31 prior year	\$ 50,090,022	\$ 0	\$ 50,090,022
Net income	13,327,589		13,327,589
Change in nonadmitted assets	(3,975,890)		(3,975,890)
Changes in surplus for the year	9,351,699	0	9,351,699
Surplus December 31 current year	<u>\$ 59,441,721</u>	<u>\$ 0</u>	<u>\$ 59,441,721</u>

Harvard Pilgrim Health Care of New England, Inc.
Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2013

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus, December 31 prior year	\$ 50,090,022	\$ 44,033,653	\$ 31,678,453
Net income	13,327,589	7,277,011	11,368,138
Change in nonadmitted assets	<u>(3,975,890)</u>	<u>(1,220,642)</u>	<u>987,062</u>
Net change in capital and surplus for the year	<u>9,351,699</u>	<u>6,056,369</u>	<u>12,355,200</u>
Capital and surplus, December 31 current year	<u><u>\$ 59,441,721</u></u>	<u><u>\$ 50,090,022</u></u>	<u><u>\$ 44,033,653</u></u>

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 and by the following Division examiner who participated in this examination hereby is acknowledged.

Carla Mallqui, CFE, Financial Examiner II

A handwritten signature in dark ink, appearing to read "Maria Gannon", is written over a horizontal line.

Maria Gannon, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance