



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

***REPORT OF EXAMINATION OF THE***  
**HARVARD PILGRIM HEALTH CARE, INC.**

**Wellesley, Massachusetts**

**As of December 31, 2013**

**NAIC GROUP CODE 0595**

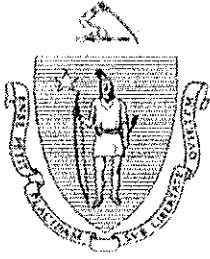
**NAIC COMPANY CODE 96911**

**EMPLOYER ID NUMBER 04-2452600**

# HARVARD PILGRIM HEALTH CARE, 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	4
Board of Directors Minutes	4
Articles of Organization and Bylaws	4
Conflict of Interest Procedures	5
Disaster Recovery and Business Continuity	5
Management and Control	5
Board of Directors	5
Committees of the Board of Directors	6
Officers	7
Affiliated Companies	8
Organization Chart	8
Transactions and Agreements with Subsidiaries and Affiliates	9
Fidelity Bonds and Other Insurance	9
Pensions, Stock Ownership and Insurance Plans	10
Defined Contribution Plan	10
Deferred Compensation Plan	10
Postretirement Medical Plan	10
Territory and Plan of Operation	10
Treatment of Members	11
Growth of Company	11
Reserves	11
Reinsurance	11
Accounts and Records	12
Statutory Deposits	12
Financial Statements	13
Statement of Assets, Liabilities, Surplus and Other Funds	14
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	15
Statement of Income	16
Statement of Capital and Surplus	17
Reconciliation of Capital and Surplus	18
Acknowledgement	19



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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200  
(617) 521-7794 • Toll free (877) 563-4467  
<http://www.mass.gov/doi>

**CHARLES D. BAKER**  
GOVERNOR

**KARYN E. POLITO**  
LIEUTENANT GOVERNOR

**JAY ASH**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**JOHN C. CHAPMAN**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**DANIEL R. JUDSON**  
COMMISSIONER OF INSURANCE

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, an examination has been made of the financial condition and affairs of

**HARVARD PILGRIM HEALTH CARE, 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, Inc. ("HPHC, Inc." or "Company") 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**

In January 2014, HPHC Holding Corporation, a subsidiary of HPHC, Inc., acquired all of the outstanding membership interests of MedWatch LLC (“MedWatch”), a care management company. The initial purchase price was \$9 million and is subject to “earn-out” incentives, which amount to a maximum of \$2.5 million upon achievement of specified performance targets.

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 \$11.5 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 \$15.1 million payable on September 30, 2015. This amount is reflected in special surplus as of December 31, 2014.

In January 2015 Health Plans, Inc. (“HPI”) a wholly owned subsidiary of HPHC, Inc., acquired certain assets of TrestleTree, Inc., a nationwide provider of lifestyle change management services to large employers.

In 2014 HPHC Inc. formed a subsidiary, Harvard Pilgrim Health Care of Connecticut, Inc. (“HPHC-CT”), an non- profit company, to sell and open access Health Maintenance Organization (“HMO”) products.

### **COMPANY HISTORY**

#### **General**

Harvard Pilgrim Health Care, Inc. is the oldest nonprofit health plan in New England. For more than 45 years, Harvard Pilgrim Health Care, Inc. has built a reputation for exceptional clinical quality, preventive care, disease management and member satisfaction and has consistently rated among the top plans in the country. HPHC, Inc. was founded in 1969 by the Dean of the Harvard Medical School, and was the first HMO in New England. HPHC, Inc. began operations as a staff-model HMO operation out of a single health center in Boston, and by 1990, consisted of fourteen Boston-area health centers licensed to operate in Massachusetts and eight independent contracted physician groups, designed to provide an alternative to fee-for-service health care. HPHC, Inc.’s pre-paid group practice brought a new concept of health care delivery to Massachusetts employers and employees by linking the delivery and payment of health care and providing most outpatient services under one roof in conveniently located health centers and in independent physician group facilities.

HPHC, Inc. has the following wholly owned subsidiaries: Harvard Pilgrim Health Care of New England, Inc. (“HPHC-NE”) which is also a Massachusetts not-for-profit corporation, operating

as a not-for-profit health plan providing comprehensive health insurance, access to health care and other related services in New Hampshire to group, Medicare and as of 2015, individual members through contracts with physicians, established primary care and multi-specialty physician groups, hospitals and other health care providers; HPHC Insurance Company, Inc. ("HPIC"), a Massachusetts for-profit insurance company underwriting health benefit plans in Massachusetts, Maine and New Hampshire for PPO and Medicare products and health risks related to out-of-network coverage for HPHC, Inc. members. In 2014 HPIC became licensed in Connecticut.

In addition to its wholly owned subsidiaries HPHC, Inc. has full control of the following affiliates: Harvard Pilgrim Physicians Association, Inc., a Massachusetts non-profit corporation, which provides HPHC, Inc. with advice on issues related to medical policy, quality and peer review on behalf of contracted physicians; Harvard Pilgrim Health Care Foundation, Inc. ("Foundation") a Massachusetts non-profit corporation, which provides support and funding for community service programs; HPHC Holding Corporation, a Massachusetts for-profit corporation; HPHC Insurance Agency, Inc., a Massachusetts for-profit corporation licensed in Massachusetts as a corporate insurance producer and Health Plans, Inc., a Massachusetts for-profit company, providing third-party administrative services for self insured employers.

Also, HPHC, Inc. is the sole member of the Harvard Pilgrim Health Care Institute, LLC ("Institute"), a Massachusetts limited liability company which performs research and research administration for grants and contracts awarded to HPHC, Inc.

The Company makes contributions to Harvard Pilgrim Health Care Foundation, Inc. and to Harvard Pilgrim Health Care Institute, LLC to support their ongoing operations. HPHC, Inc. pays expenses on behalf of the Foundation for which it is then reimbursed. The Institute initially funds certain expenses for grant related projects which are reimbursed to HPHC, Inc. These costs are then reimbursed by HPHC, Inc. to the Institute.

## **CORPORATE RECORDS**

### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors ("Board") and its committees 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. Activities of the committees were reported upon at various meetings of the Board.

### **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 have been two changes since the prior exam. The bylaws were restated on May 11, 2011 and May 15, 2013. The restatements resulted in the following significant changes: the addition of a Vice Chair as an officer; the Chair of the Board is limited to a maximum of 4 consecutive one year terms and the Chair of the Patient Care Assessment Committee is to be a Board member.

Conflict of Interest Procedures

The Company has adopted a conflict of interest policy statement. The Company 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 above 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 the 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 affairs of the Company shall be managed by the Directors who shall have and may exercise all the powers of the Company. The Board of Directors of the Company shall be comprised of between seven (7) and seventeen (17) individuals. Such persons elected as Directors by the Company's Board shall serve for staggered terms.

At each annual meeting of the Directors, the Directors shall elect the appropriate number of successors to the Directors whose terms are then expiring. By virtue of his or her office, the president shall be elected for a term coinciding with the office.

The terms of office of the Directors of the Company shall be staggered and each Director shall hold office for a term not to exceed three (3) years and until his or her successor is elected and qualified. A Director may serve more than one term, but not more than three (3) consecutive terms.

At December 31, 2013, the Company's Board of Directors was comprised of thirteen (13) persons, 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, Inc.

<u>Name of Director</u>	<u>Title</u>
Barry L. Shemin	Chairman
	Consulting Actuary
Mary A. Tocio	Vice Chairman
	Bright Horizons Family Solutions
Constance S. Barr, MD	Dedham Medical Associates
Earl W. Baucom	Retired, Federal Home Loan Bank of Boston
Shelby M. Chodos	Harvard University, Kennedy School of Government
Susan V. Duprey	Devine, Millimet & Branch, P.A.
Trammell L. Gutierrez	Exeter Group, Inc.
Scott S. Hartz	John Hancock Financial Services
Edward F. McCauley, CPA	Retired Partner – Deloitte & Touche LLP
Joyce A. Murphy	University of Massachusetts Medical School
Joseph F. O'Donnell, MD	Dartmouth Medical School
Eric H. Schultz	President and CEO, Harvard Pilgrim Health Care, Inc.
Hedwig V. Whitney	Retired Senior Vice President of Human Resources, Aspen Technology

### Committees of the Board of Directors

The Board may, by vote of a majority of the Directors then in office, elect or appoint one or more committees and delegate to any such committee or committees any or all of the powers of the Directors, except those which by law, by the Restated articles of organization or by the restated bylaws they are prohibited from delegating. If the Directors so determine, there shall be an Executive Committee, which shall have all of the powers of the Directors during intervals between meetings of the Directors, except for the powers specified in Massachusetts General Laws, Chapter 156B, Section 55. All committees of the Board, except the Executive Committee, may include members from within or without the membership of the Board.

The Board appointed the Audit Committee to oversee the Company's financial reporting processes and its systems of internal controls and compliance to ensure their integrity and effectiveness; the Finance Committee to oversee the financial condition of the Company to ensure the Company's financial strength and integrity; the Human Resources Committee to ensure implementation of policies and procedures, which enable the Company to attract, retain and develop the most talented staff available; to evaluate the performance of the President and Chief Executive Officer; the Nominating and Governance Committee to oversee the Board's organizational structure, composition and focus of activities to ensure the Board's effectiveness in supporting achievement of the Company's mission and the Patient Care Assessment Committee which develops, recommends for approval by the Board of Directors and implements the Patient Care Assessment Plan of the corporation and its affiliates approved from time to time by the Board of Directors pursuant to Massachusetts General Laws, Chapter 111, Section 203. The Patient Care Assessment Committee also approves the Qualified Patient Care Assessment coordinator for the Company and its affiliates.



## Harvard Pilgrim Health Care, Inc.

The Audit Committee, all of whom are independent Directors, is composed of Directors Edward McCauley, Chair, Earl Baucom, Shelby Chodos, Joseph O'Donnell and Hedwig Whitney. The Finance Committee is comprised of Directors Earl Baucom, Chair, Constance Barr, MD, Susan Duprey, T. Louis Gutierrez, Scott Hartz and Edward McCauley. The Human Resource Committee is composed of Directors Mary Ann Tocio, Chairman, Constance Barr, MD, T. Louis Gutierrez, Joyce Murphy, Barry Shemin and Hedwig Whitney. The Nominating and Governance Committee is composed of Directors Joyce Murphy, Chair, Susan Duprey, Eric Schultz (non-voting), Barry Shemin, Mary Ann Tocio. The Patient Care Assessment Committee is composed of Director Constance Barr, MD, Chairman, John Burke, R. William Corwin, MD, Steven Flood, MD, Director Joseph O'Donnell, MD, Richard Platt, MD, Cynthia Rosenberg, MD, Michael Sherman, MD and Rick Weisblatt, PhD.

### Officers

The officers of the corporation shall be a Chair of the Board, Vice Chair of the Board, President, Treasurer, Clerk and such other officers, if any, as the Directors or the president may determine. A person may hold more than one office at the same time.

The Chair of the Board, Vice Chair of the Board, President, Treasurer and Clerk shall be elected by the Directors at their annual meeting. Other officers, if any, may be elected by the Directors or appointed by the president at any time.

The Chair, President, Treasurer, and Clerk shall each hold office until the next annual meeting of the Directors or until his successor is chosen and qualified, and each other officer shall hold office until the next annual meeting of the Directors unless a shorter period shall have been specified by the terms of his election or appointment. Effective as of the Board's annual meeting in May 2014, the Chair of the Board may serve a maximum of four consecutive one-year terms. Effective as of the Board's annual meeting in May 2014, the vice chair shall serve coterminous with the term of the then current Board Chair, irrespective of the Vice Chair's term limit. If, in accordance with the foregoing, the Vice Chair is elected as Chair of the Board during such extended tenure, the term of such chair shall not exceed three consecutive one-year terms.

The Chair of the Board shall preside at all meetings of the Directors, except as the Directors shall otherwise determine and shall have such other powers and duties as may be determined by the Directors. In the absence of the Chair, the Vice Chair, unless otherwise determined by the Board, shall perform the duties of Chair and shall perform such other duties as from time to time may be assigned by the Chair. The President shall be the Chief Executive Officer of the Company and, subject to the control of Directors, shall have general charge and supervision of the affairs of the Company. The Treasurer shall be in charge of funds, securities and valuable papers, and he or she shall keep full and accurate records thereof and shall have such other duties and powers as designated by the Directors or President. The Vice Presidents shall have such other duties and powers as the Directors or President shall determine.

## Harvard Pilgrim Health Care, Inc.

The elected officers and their respective titles at December 31, 2013 are as follows:

<u>Name of Officer</u>	<u>Title</u>
Barry L. Shemin	Chairman of the Board
Mary Ann Tocio	Vice Chairman of the Board
Eric H. Schultz	President and Chief Executive Officer
Charles R. Goheen	Chief Financial Officer and Treasurer
Thomas F. Maloney*	Interim Clerk and Interim Chief Legal Officer
Tu T. Nguyen	Chief Actuary

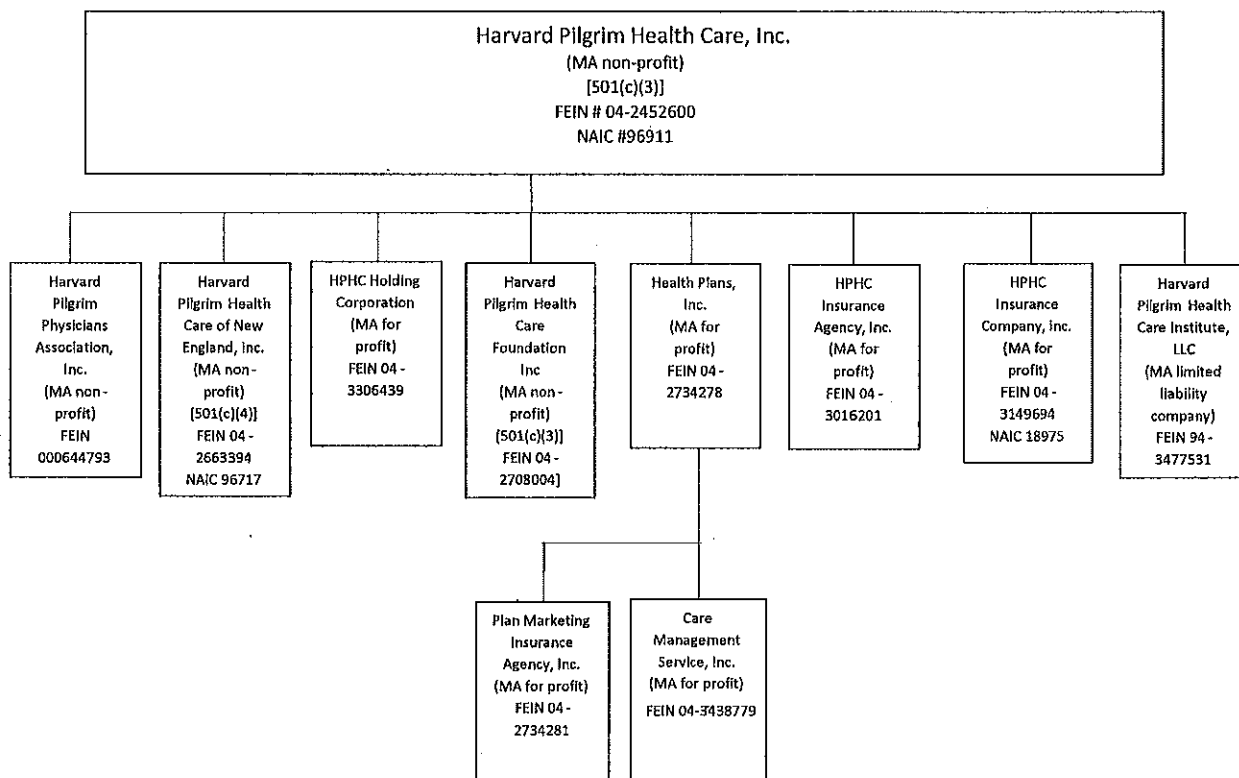
\*During 2014 Tisa Hughes became Chief Legal Officer and Clerk.

### 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.

### 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 and its insurance affiliates, HPHC-NE and HPIC, Inc. participate in a Guaranty and Indemnity Agreement ("G&I Agreement"). In 2014 the agreement was amended to include HPHC-CT. Under the terms of the G&I Agreement, each affiliate guarantees the payment and performance of the others. In addition, each affiliate is jointly and severally liable for all obligations that may arise out of this G&I Agreement. The Company has no contingent liabilities related to the G&I Agreement as of December 31, 2013.

*Administrative Services Agreement*

The Company provides all administrative and operational management services to HPHC-NE. The Company has a management and medical services agreement with HPHC-NE, which provides for an allocation of hospital and medical and administrative costs, including claims adjustment expenses from the Company to HPHC-NE. Administrative expenses are allocated to HPHC-NE based on the Company's departmental cost allocation methodology. Intercompany balances are settled quarterly, following the close of the quarter.

The Company also provides all administrative and operational management services to HPIC. Administrative expenses, including claim adjustment expenses, are allocated to HPIC based on the Company's departmental cost allocation methodology. Intercompany balances are settled quarterly, following the close of the quarter.

The Company also provides certain administrative and operational management services to Health Plans, Inc. ("HPI"). Administrative expenses are allocated to HPI based on HPHC, Inc.'s departmental cost allocation methodology.

*Long Term Service Contract with Dell Perot Systems Healthcare Services Corporation*

HPHC, Inc. has a long-term agreement with Dell Perot Systems Healthcare Services Corporation ("DPSHS") whereby DPSHS provides information technology operations, development and claims processing services at HPHC, Inc. facilities under the direction of DPSHS staff. Services include operational services for technology and claims operations and business project services. The agreement runs through 2024.

**FIDELITY BONDS AND OTHER INSURANCE**

The Company 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**

### **Defined Contribution Plan**

The Company's employees participate in a defined contribution plan covering all employees. Participants can make salary deferral contributions up to 50% of their pay, subject to the legally permitted maximum and, after one year of service. The Company will make matching contributions equal to 100% of the first 4% of salary deferrals, subject to the legally permitted maximum. The Company also makes an annual contribution of 4% of pay to each participant's account, regardless of whether the employee makes salary deferral contributions or not.

### **Deferred Compensation Plan**

The Company established a nonqualified deferred compensation plan ("Plan"), effective July 1, 2005, which allows certain highly compensated employees the option to defer specified amounts of their annual compensation on a pretax basis and also allows the Company, at its discretion, the option to provide deferred compensation to key employees. A participant in the Plan is notified of a voluntary contribution made by the Company to that participant's account. In addition, the participant's account is credited to reflect investment returns based on measuring investments selected by either the participant or the Plan administrator in accordance with the Plan document. The participant has the option to take a distribution of their account, in its entirety, upon severance of employment with the Company. All amounts of compensation deferred under the Plan remain the assets of the Company until paid out to a participant or his or her beneficiary. The Company is not required to segregate or set aside any assets to meet its obligation under the Plan.

### **Postretirement Medical Plan**

The Company has one postretirement medical life insurance plan. The health care benefits are contributory with participants contributions adjusted annually and the life insurance benefits are noncontributory. The Company's postretirement medical plan allows employees who have attained age 60 and completed 10 years of continuous service to remain in the Company's group health care coverage upon retirement and until they qualify for Medicare coverage. In accordance with the provisions of the postretirement medical plan, the employee will pay 100% of the monthly premium until they reach age 65. Once they reach age 65 and enroll in both Medicare A and B, the Company will provide a maximum monthly contribution to each retiree (and spouse, if applicable), provided the employee is transitioning from an active Company employee medical plan. Additionally, there are certain grandfathered participants whom the Company pays their entire benefit.

## **TERRITORY AND PLAN OF OPERATION**

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

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	\$ 826,271,952	\$ 346,791,968	\$ 479,479,984
2012	882,592,488	401,455,601	481,136,887
2013	853,527,956	356,916,405	496,611,551

**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 HPHC, Inc.'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**

HPHC, Inc. carries reinsurance against excessive utilization on a per-member basis. Under the policy, HPHC, Inc. 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. The impact of reinsurance recoveries on the financial statements is immaterial.

### 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 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 with 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>
Maine	US Treasury Bond 6.375% Due 8/15/27	\$1,900,000	\$2,304,181	\$ 2,516,018
Massachusetts	US Treasury Bond 6.375% Due 8/15/27	1,000,000	1,212,727	1,324,220
	Federated Govt Oblig	1,698,707	1,698,707	1,698,707
Rhode Island	Blackrock Treasury Trust Fund	252,191	252,191	252,191
		<u>\$4,850,898</u>	<u>\$5,467,806</u>	<u>\$5,791,136</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, 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	\$ 530,586,355	\$ 0	\$ 530,586,355
Common stocks	210,546,663		210,546,663
Cash & short term investments	(7,416,464)		(7,416,464)
Real Estate	28,233,928		28,233,928
Aggregate write-ins for invested assets	1,910,688		1,910,688
Subtotals, cash and invested assets	763,861,170	0	763,861,170
Investment income due and accrued	3,174,657		3,174,657
Premiums and considerations:			
Uncollected premiums and agents' balances			
in course of collection	14,312,441		14,312,441
Reinsurance:			
Amounts recoverable from reinsurers	1,327,890		1,327,890
Amounts receivable relating to uninsured			
plan receivables	30,430,754		30,430,754
Electronic data processing equipment	11,349,409		11,349,409
Receivables from parent, subsidiaries and			
affiliates	2,756,790		2,756,790
Health care and other amounts receivable	23,604,678		23,604,678
Aggregate write-ins for other than	2,710,167		2,710,167
invested assets			
 Total assets	 \$ 853,527,956	 \$ 0	 \$ 853,527,956



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

<b>Liabilities</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Claims unpaid	\$ 108,997,822	\$ 0	\$ 108,997,822
Accrued medical incentive pool and bonus	37,779,839		37,779,839
Unpaid claims adjustment expense	1,463,042		1,463,042
Premiums received in advance	25,777,133		25,777,133
General Expenses due or accrued	84,534,146		84,534,146
Amounts withheld or retained	58,273		58,273
Amounts due to parent, subsidiaries, affiliates	12,515,645		12,515,645
Liability for amounts held under insurance plans	51,185,964		51,185,964
Aggregate write-ins for other liabilities	34,604,541		34,604,541
<b>Total liabilities</b>	<b>356,916,405</b>	<b>0</b>	<b>356,916,405</b>
Surplus notes	38,766,816		38,766,816
Unassigned surplus	457,844,735		457,844,735
<b>Total capital and surplus</b>	<b>496,611,551</b>	<b>0</b>	<b>496,611,551</b>
<b>Total liabilities capital, and surplus</b>	<b>\$ 853,527,956</b>	<b>\$ 0</b>	<b>\$ 853,527,956</b>

Harvard Pilgrim Health Care, Inc.  
Statement of Income  
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Member Months	4,020,702		4,020,702
Net premium income	\$1,784,760,345		\$1,784,760,345
Change in unearned premium reserves and reserve for rate credits	1,196,352		1,196,352
Total revenues	1,785,956,697	\$ 0	\$ 1,785,956,697
<b>Hospital and Medical:</b>			
Hospital/medical benefits	1,219,995,028		1,219,995,028
Other professional services	47,786,747		47,786,747
Outside referrals	32,563,633		32,563,633
Emergency room and out-of-area	26,685,590		26,685,590
Prescription drugs	204,108,494		204,108,494
Incentive pool, withhold adjustment and bonus amounts	32,923,375		32,923,375
Subtotal	1,564,062,867	0	1,564,062,867
Less:			
Net reinsurance recoveries	1,838,301		1,838,301
Total hospital and medical	1,562,224,566	0	1,562,224,566
Claims adjustment expenses	49,243,498		49,243,498
General administrative expenses	175,092,431		175,092,431
Total underwriting deductions	1,786,560,495	0	1,786,560,495
Net underwriting loss	(603,798)	0	(603,798)
Net investment income earned	14,283,290		14,283,290
Net realized capital gains less capital gains tax	340,096		340,096
Net investment gain	14,623,386	0	14,623,386
Aggregate write-ins for other income or expenses	(2,515,395)		(2,515,395)
Net income, after capital gains tax and before all other federal income taxes	11,504,193	0	11,504,193
Federal and foreign income taxes incurred			
Net income	\$ 11,504,193	\$ 0	\$ 11,504,193

Harvard Pilgrim Health Care, 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	\$ 481,136,887	\$ 0	\$ 481,136,887
Net income	11,504,193		11,504,193
Change in net unrealized capital gains	25,542,893		25,542,893
Change in nonadmitted assets	(5,951,755)		(5,951,755)
Change in surplus notes	(9,714,897)		(9,714,897)
Cumulative effect of changes in accounting principles	(5,905,770)		(5,905,770)
Changes in surplus for the year	15,474,664	0	15,474,664
Surplus December 31 current year	<u>\$ 496,611,551</u>	<u>\$ 0</u>	<u>\$ 496,611,551</u>

Harvard Pilgrim Health Care, 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	\$ 481,136,887	\$ 479,479,984	\$ 412,724,331
Net income	11,504,193	16,363,969	74,221,495
Change in net unrealized capital gains	25,542,893	15,123,270	9,502,993
Change in nonadmitted assets	(5,951,755)	(10,115,440)	(7,253,938)
Change in surplus notes	(9,714,897)	(19,714,896)	(9,714,897)
Cumulative effect of changes in accounting principles	<u>(5,905,770)</u>	<u>-</u>	<u>-</u>
Net change in capital and surplus for the year	<u>15,474,664</u>	<u>1,656,903</u>	<u>66,755,653</u>
Capital and surplus, December 31 current year	<u><u>\$ 496,611,551</u></u>	<u><u>\$ 481,136,887</u></u>	<u><u>\$ 479,479,984</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 cursive script, reading "Maria Gannon", is written over a horizontal line.

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