



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

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

Boston, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 0000

NAIC COMPANY CODE 13203

EMPLOYERS ID NO. 04-3373331

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

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DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

April 29, 2016

Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
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Honorable Commissioner:

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

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

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

SCOPE OF EXAMINATION

Boston Medical Center Health Plan, Inc. ("Company" or "BMCHP") was last examined as of December 31, 2011 by the Massachusetts Division of insurance ("Division"). The current examination was also conducted by the Division and covers the period from January 1, 2012 through December 31, 2014, 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 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 policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2012 through 2014. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. KPMG LLP ("KPMG") was engaged to perform certain agreed-upon procedures, which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2014. KPMG's Information Technology Advisory Services personnel were engaged to review 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. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

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

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

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

On March 16, 2012, BMCHP also became licensed as a Health Maintenance Organization ("HMO") insurer with the New Hampshire Insurance Department. In April of 2012, the New Hampshire Department of Health and Human Services ("DHHS") selected BMCHP as one of three insurers to serve individuals qualifying for the New Hampshire Medicaid program. The DHHS Managed Care Program has been approved by the federal Centers for Medicare and Medicaid Services. Members' coverage became effective during December 2013. BMCHP operates under the name Well Sense Health Plan ("Well Sense") in the State of New Hampshire.

On September 12, 2013, the Connector Board granted final approval for BMCHP to offer Qualified Health Plans ("QHP"), including ConnectorCare Plans, in each of seven rating regions.

Boston Medical Center Health Plan, Inc.

These plans are a key component of the Affordable Care Act ("ACA") and members' coverage became effective on January 1, 2014.

BMCHP is an affiliate of BMC. BMC capitalized BMCHP in 1997 with \$10 million received from the Commonwealth. In fiscal year 2001, BMCHP transferred \$7.5 million back to BMC. Effective July 1, 2013, as a result of an internal only corporate reorganization, BMC Health System, Inc. ("BMCHS") replaced BMC as BMCHP's sole corporate member. The BMCHP president reports to the BMCHS president and chief executive officer. BMCHP maintains a separate Board of Trustees, but shares BMCHS Board committees. BMCHS is a non-profit corporation that oversees the operations of BMC, BMCHP and various affiliates and associated services. The System is the sole corporate member of both BMC and BMCHP.

MANAGEMENT AND CONTROL

Board of Trustees

According to the bylaws, the Company's property, business and affairs shall be managed by a Board of Trustees which may exercise all of the powers of the Company, except as reserved to the Member (BMC Health System, Inc.), by the articles of organization or by the bylaws. The Board shall consist of those persons serving from time to time as the Board of the Company. Any trustee may be removed from the Board of the Company in accordance with the bylaws of the Company. Vacancies in the Board shall be filled and removal of individuals from the Board shall be effected in accordance with the provisions of the bylaws of the Company with respect to vacancies and removals of trustees of the Company. The Board shall have and may exercise the powers of the trustees notwithstanding any vacancies in their numbers.

At December 31, 2014, the Company's Board of Trustees consisted of the following:

<u>Name of Trustee</u>	<u>Title/Occupation</u>
David Ament	Chairman, Boston Medical Center Health Plan Board of Trustees, Managing Partner, Parthenon Capital Partners
James Blue	Chief Executive Officer, Marsh & McLennan Agency
Susan Coakley	President, Boston Medical Center Health Plan
Pierre Cremieux	Managing Principal, Analysis Group
Sandra Cotterell	Chief Executive Officer, Codman Square Health Center
Fay Donohue	President & CEO, Dental Services of Massachusetts, Inc.
Christopher Gordon	Managing Director, Bain Capital
Frank Ingari	President and CEO, NaviNet, Inc.
Keith P. Lewis, M.D.	Chief, Department of Anesthesiology, Boston Medical Center & Boston University School of Medicine
Kathleen Walsh	President and CEO Boston Medical Center

Boston Medical Center Health Plan, Inc.

Officers

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

Officers of the Company at December 31, 2014 are as follows:

<u>Name of Officer</u>	<u>Title</u>
David Ament	Chairman of the Board
Susan Coakley	President
Laurie Doran	Treasurer
Matthew Herndon	Clerk

Committees of the Board of Trustees

The bylaws allow that the trustees may delegate any of their powers to committees established by them and appoint chairpersons and members who shall serve at the pleasure of the Board. Standing committees of the Board include an Audit and Compliance Committee, a Finance Committee, a Quality and Clinical Management Committee, Nominating and Governance Committee, Credentialing Committee and such other committees as they may determine. In accordance therewith the Board of Trustees appointed an Investment Committee to monitor the performance of the Company's investments. The Board also appointed a Compensation Committee to review compensation benefit issues relating to the Company.

Holding Company

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

Transactions and Agreements with Subsidiaries and Affiliates

At December 31, 2014 and 2013, BMC owed BMCHP \$115,000 and \$179,000, respectively. Also, at December 31, 2014 and 2013, BMCHP owed BMC \$11,617,000 and \$20,456,000, respectively, which was included in health care claim reserves as of December 31, 2014 and 2013. BMCHP was allocated \$206,000 of expenses, in both 2014 and 2013 related to the time spent by BMC employees on behalf of BMCHP.

BMCHP incurred approximately \$124,648,000 and \$118,199,000 in claims expense related to BMC for the years ended December 31, 2014 and 2013, respectively, related to medical services provided by BMC to BMCHP members. These amounts have been included in healthcare benefits in the statements of income.

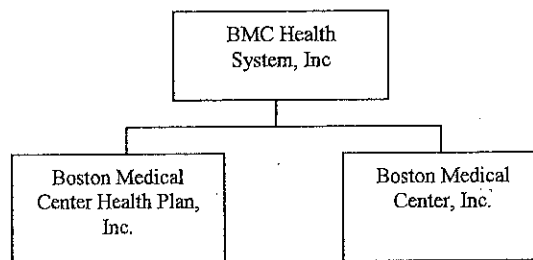
Boston Medical Center Health Plan, Inc.

BMCHP incurred approximately \$21,450,000 and \$16,520,000 in claims expense related to the Faculty Practice Foundation (the "Foundation") for the years ended December 31, 2014 and 2013, respectively, related to medical services provided by the Foundation to BMCHP members. These amounts have been included in the healthcare benefits in the statement of income. Also, as of December 31, 2014 and 2013, BMCHP owed the Foundation \$806,000 and \$783,000, respectively, which was included in health care claim reserves.

During the year ended December 31, 2014, BMC made a surplus contribution to BMCHP of \$7,300,000 and in 2013 and 2012, BMCHP's Board of Trustees approved net asset transfers of \$23,000,000 and \$50,000,000, respectively, to BMC, which is a direct increase to or reduction of unrestricted net assets in the statements of operations and changes in unrestricted net assets for the years then ended.

Organization Chart

A summary of ownership and relationships of the Company and its operating subsidiaries and affiliated companies as of December 31, 2014 is illustrated below:



TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the Commonwealth of Massachusetts and the State of New Hampshire. BMCHP is headquartered in Boston, Massachusetts and focused on the greater Boston, Massachusetts area plus surrounding communities, primarily in Middlesex and Essex counties.

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.

REINSURANCE

All of the Company's capitation revenue earned during the period under Exam and events subsequent is generated from enrollment in the prepaid health plans established by MassHealth and the Commonwealth Health Insurance Connector. The Company maintains a stop loss program with the Connector for all of their product types, including QHP, from its inception. From 2011 to 2014, the Company had a stop loss program with MassHealth for just product type RC 7. According to the Company, there has never been a question about risk transfer from its auditors or actuaries for either of these reinsurance agreements. Reinsurance activity at the Company during the period under review appears to be limited and the reinsurance balances (receivables and payables) were immaterial for 2012, 2013, and 2014.

FINANCIAL STATEMENTS

The following financial statements have been prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ended December 31, 2014. These financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2014

Statement of Revenue and Expenses for the Year Ended December 31, 2014

Statement of Capital and Surplus for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2014

Boston Medical Center Health Plan, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2014

	Per Annual Statement
Assets	
Bonds	\$94,106,657
Common Stocks	44,798,183
Cash, cash equivalents and short-term investments	155,594,952
Subtotal, cash and invested assets	294,499,792
Investment income due and accrued	319,415
Electronic data processing equipment and software	713,121
Aggregate write-ins for other than invested assets	96,465,271
 Total Assets	 <u>\$391,997,599</u>
 Liabilities, Capital and Surplus	
Claims unpaid	\$122,958,682
Accrued medical incentive pool and bonus amounts	6,688,139
Unpaid claim adjustment expense	3,837,000
Aggregate health policy reserves	20,884,266
General expense due or accrued	15,938,733
Aggregate write-ins for other liabilities	17,445,988
Total Liabilities	187,752,808
Contributed surplus	7,300,000
Unassigned funds (surplus)	196,944,791
 Total capital and surplus	 <u>204,244,791</u>
 Total liabilities, capital and surplus	 <u>\$391,997,599</u>

Boston Medical Center Health Plan, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2014

	Per Annual Statement
Member months	4,316,734
Net premium income	\$1,775,857,092
Risk revenue	15,632,380
Total revenue	1,791,489,472
Less:	
Hospital/medical benefits	1,004,675,947
Other professional services	175,113,659
Emergency room and out-of-area	167,013,859
Prescription drugs	338,022,032
Incentive pool, withhold adjustment & bonus amounts	4,010,168
Net reinsurance recoveries	1,409,718
Total hospital and medical	1,687,425,947
Claims adjustment expense	57,936,669
General administrative expense	55,643,636
Increase in reserves for life and accident and health contracts	14,244,000
Total underwriting deductions	1,815,250,252
Net underwriting gain or (loss)	(23,760,780)
Net investment income earned	1,664,137
Net realized capital gains	2,651,909
Net investment gains	4,316,046
Aggregate write-ins for other income or expenses	0
Net income or (loss) after capital gains tax and before all other federal income taxes	(19,444,734)
Net income or (loss)	\$(19,444,734)

Boston Medical Center Health Plan, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2014

	Per Annual Statement
Surplus as regards policyholders, December 31, 2013	\$215,377,326
Net loss	(19,444,734)
Change in nonadmitted assets	1,012,199
Capital transfer from Parent	<u>7,300,000</u>
Net change in capital and surplus	<u>(11,132,535)</u>
Surplus as regards policyholders, December 31, 2014	<u><u>\$204,244,791</u></u>

Boston Medical Center Health Plan, Inc.

Boston Medical Center Health Plan, Inc.
 Reconciliation of Capital and Surplus
 For Each Year in the Three Year Period Ended December 31, 2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital and surplus, December 31, prior year	<u>\$215,377,326</u>	<u>\$236,413,510</u>	<u>\$293,288,843</u>
Net loss	(19,444,734)	(768,976)	(7,523,739)
Change in non admitted assets	1,012,199	2,732,792	648,406
Dividends to stockholder	0	(23,000,000)	(50,000,000)
Transfer of capital from stockholder	7,300,000	0	0
Net change in capital and surplus	<u>(11,132,535)</u>	<u>(21,036,184)</u>	<u>(56,875,333)</u>
Capital and surplus, December 31, current year	<u><u>\$204,244,791</u></u>	<u><u>\$215,377,326</u></u>	<u><u>\$236,413,510</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Claims Unpaid

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, 2014 and prior periods. For December 31, 2014, 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 BMC’s UCL are reasonable as of December 31, 2014.

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, 2014.

SUBSEQUENT EVENTS

Effective January 1, 2016, the Plan launched a fully integrated geriatric model of care under the Senior Care Option (“SCO”) program. The SCO program, is a Medicare Advantage Dual Eligible Special Needs Plan. It is jointly administered by MassHealth and the Centers for Medicare and Medicaid Services under which eligible individuals receive Medicaid and Medicare benefits. BMCHP’s SCO plan is offered to eligible individuals age 65 and older in Suffolk County who are enrolled in MassHealth and are eligible for Medicare Parts A and B.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

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

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

A handwritten signature in dark ink, appearing to read 'John A. Turchi', is written over a horizontal line.

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