



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

REPORT OF EXAMINATION OF
CONNECTICARE OF MASSACHUSETTS, INC.

Boston, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 1127

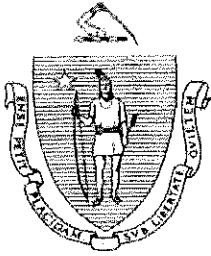
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CONNECTICARE OF MASSACHUSETTS, INC.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	3
Company History	3
Dividends to Stockholders	3
Management and Control	4
Board of Directors	4
Officers	4
Audit and Finance Committee	5
Holding Company	5
Transactions and Agreements with Subsidiaries and Affiliates	5
Tax Sharing Agreement	5
Administrative Services Agreements	5
Organization Chart	6
Territory and Plan of Operation	7
Reinsurance	7
Financial Statements	8
Statement of Assets, Liabilities, Capital and Surplus	9
Statement of Assets, Liabilities, Capital and Surplus (continued)	10
Statement of Revenue and Expenses	11
Statement of Capital and Surplus	12
Reconciliation of Capital and Surplus	13
Analysis of Changes in Financial Statements Resulting from the Examination	14
Comments on Financial Statement Items	14
Subsequent Events	14
Summary of Recommendations	14
Signature Page	15



COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

April 29, 2016

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 the

CONNECTICARE OF MASSACHUSETTS, INC.

at its home office located at 175 Scott Swamp Road, Farmington, Connecticut, 06032-3124. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

ConnectiCare of Massachusetts, Inc. ("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 four year period from January 1, 2011 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 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, employee 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, with examination efforts being directed accordingly.

The Company's 2014 audit was performed by Deloitte & Touche LLP ("Deloitte"), an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar years 2011 through 2014. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. The examination has relied on the work performed by the Connecticut examiners during their concurrent examinations of their companies within the ConnectiCare Group, for their review of 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. In addition the Division has relied upon Connecticut's review of the actuarial controls regarding the determination of actuarially determined items.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

The examination included a review to verify the current status of findings commented upon in the Report of Examination as of December 31, 2010. There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

ConnectiCare of Massachusetts, Inc. is a for-profit health maintenance organization that provides managed care services in Hampden, Hampshire, Franklin, and Worcester counties of Massachusetts. The Company is a wholly owned subsidiary of ConnectiCare Capital LLC ("Capital LLC"), which is a wholly owned subsidiary of ConnectiCare Holding Company, Inc. ("The Parent"). On June 22, 2001, following approval by the Division, ownership and control of the Company was transferred from the Parent to Capital LLC as part of a corporate recapitalization. On March 10, 2005, the Parent and its subsidiaries were acquired by HIP Holdings, Inc. ("HIP").

HIP is a for-profit, Delaware holding corporation and is a wholly owned subsidiary of Health Insurance Plan of Greater New York, ("HIPNY") a New York State not-for-profit corporation operating under the provisions of Article 43 of the Insurance Law of the State of New York. HIPNY and its subsidiaries are providers in managed care products and services in the New York City Metropolitan Area.

On November 15, 2006, having received regulatory approval from the New York State Insurance Department, the Boards of Directors of GHI Services, LLC ("GHI") and HIP Foundation, Inc. ("The Foundation"), the parent corporation of HIP combined GHI and HIP under the leadership of the Foundation as the sole corporate member of both companies. Also, on that date, the name of the Foundation was changed to EmblemHealth, Inc. Both GHI and HIP named an equal number of Directors to the Board of Directors of EmblemHealth, Inc.

Dividends to Stockholders

During the current examination period the Company paid the following dividends to their sole stockholder, ConnectiCare Capital LLC:

2013	\$2,500,000
2012	\$5,800,000
2011	\$3,500,000

MANAGEMENT AND CONTROL

Board of Directors

At December 31, 2014, the Board of Directors was comprised of two Directors, which was not in compliance with the Company's bylaws. The bylaws state that the number of Directors shall be between three and seven members. The Director's names and business affiliation were as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>
Frank J. Branchini Chairman	President, COO and Director, EmblemHealth, Inc.
Michael R. Wise	President ConnectiCare, Inc.

The Company's bylaws were subsequently amended on March 15, 2015 to set the number of Directors to be between one and seven members.

Officers

The bylaws provide that the officers of the Company shall include a Chairman, a President, Clerk 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 of the stockholders and shall hold office for one year.

The elected officers and their respective titles at December 31, 2014 are as follows:

<u>Name of Officer</u>	<u>Title</u>
Frank J. Branchini	Chairman
Michael R. Wise	President
Frank A. Scalise	Chief Financial Officer and Treasurer
William Mastro	Corporate Secretary
Mary T. Bannon	Senior Vice President and Assistant Secretary
Craig H. Effrain	Assistant Secretary
Mark A. Verre	Senior Vice President and Chief Information Officer
Michelle M. Zettergren	Senior Vice President and Chief Sales & Marketing Officer
Richard A. Rogers	Senior Vice President
Stephanie K. Rich	Senior Vice President

Audit and Finance Committee

The Board of Directors has appointed an Audit and Compliance Committee which is comprised of three Board members. The Committee is responsible, on behalf of the Board of Directors, for oversight of internal controls. The oversight includes financial reporting, corporate compliance and the adequacy of audit efforts, both internal and external. In addition, the committee has the authority to engage independent counsel and other advisors to carry out its duties. Directors serving on this Committee at December 31, 2014 were as follows: Frank J. Branchini, Chairman, Richard B. Hurley and Eileen S. Kraus.

Holding Company

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Law Chapter 175, Section 206C. ConnectiCare Capital LLC owns 100% of the issued and outstanding common stock of the Company.

Transactions and Agreements with Subsidiaries and Affiliates

In connection with shared service agreements between the parent, the Company and other affiliates, certain costs, including facilities and services are purchased jointly on behalf of the Company, the parent, and affiliates in the ordinary course of business. The Company has the following key intercompany agreements in place:

Tax Sharing Agreement

The Company is party to a Tax Sharing Agreement with HIP Holding. HIP Holding files a consolidated federal income tax return for other affiliates. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate tax return liabilities of all affiliates that are members of the consolidated group.

Administrative Services Agreements

The Company is party to an administrative services agreement with EmblemHealth Services Company LLC. This agreement delegates specific Medicare services that include: sales; enrollment and premium billing; member services; provider services; claims and liability recovery; pharmacy administration; grievances and appeals; vendor interactions; conductivity and business support; legal and compliance; network support; and payment of behavioral health claims for private fee-for-service plans on a cost basis.

The Company is party to an administrative services agreement with ConnectiCare Holding. This agreement provides services of: certain personnel; facilities; equipment; personal property; licenses; and contracts owned or leased by the Company. Services provided under this contract include: financial and accounting services (including actuarial); banking and treasury operations; investment custodial services; underwriting; forms and rates; claims processing; utilization

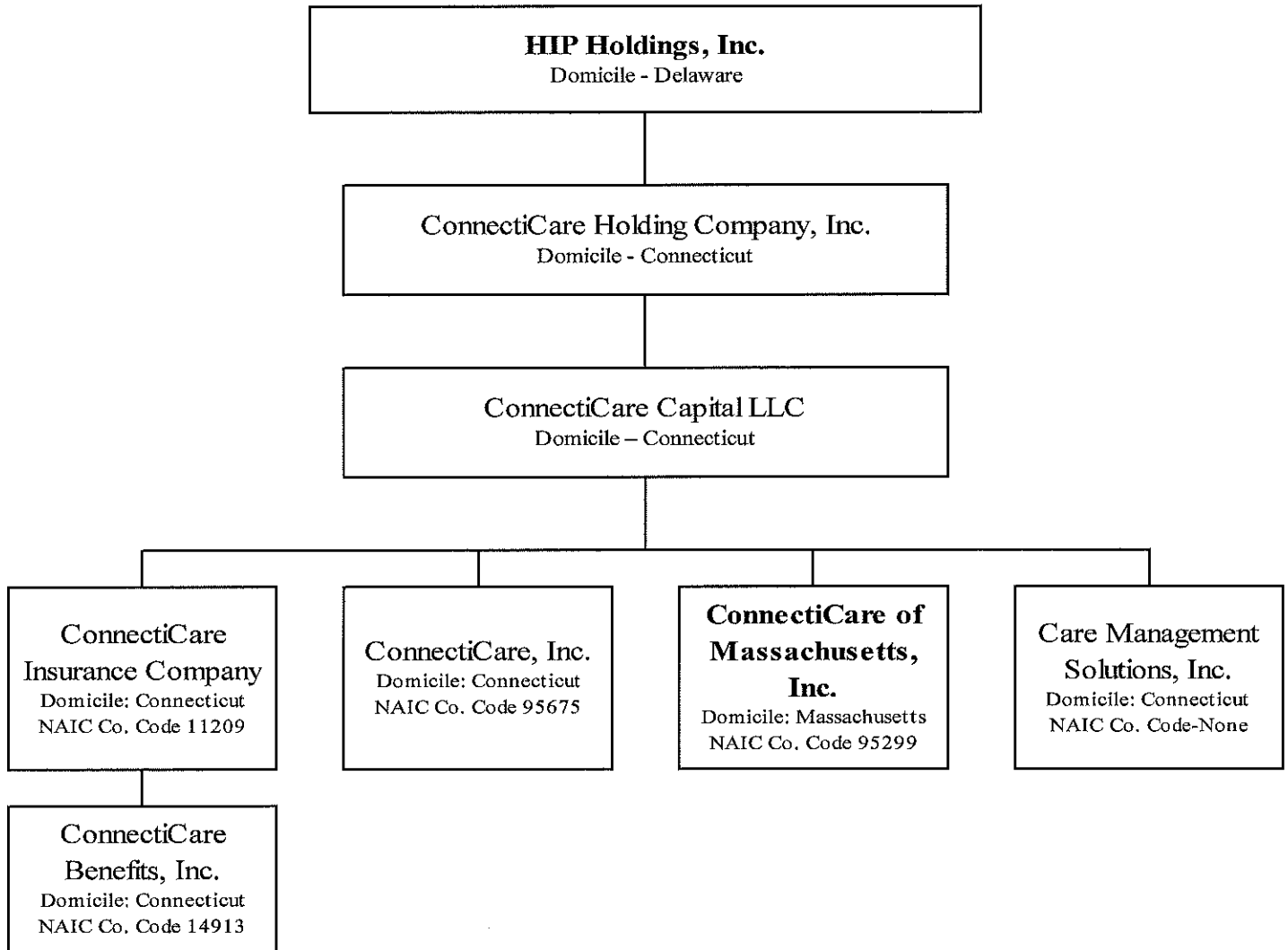
ConnectiCare of Massachusetts, Inc.

review; credentialing; marketing; agency development; member services; fraud and abuse; personnel; information systems; legal and government relations on a cost basis.

The Company is party to an administrative services agreement with HIP Administrators of Florida, Inc. (“HIPA”). This agreement provides services of certain personnel, facilities, equipment, personal property, licenses, and contracts owned or leased by HIPA. The services provided under this agreement are for claims processing, member services, and information systems on a cost basis.

Organization Chart

The ownership and relationship of the Company and its affiliated companies as of year end 2014 is shown below.



TERRITORY AND PLAN OF OPERATION

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

REINSURANCE

The Company currently participates in an excess of loss reinsurance agreement with RGA Reinsurance Company, an authorized Massachusetts reinsurer. Under the terms of this agreement, RGA Reinsurance Company will reimburse the Company for eligible expenses in excess of \$1,250,000 up to \$5,000,000.

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, 2014. The 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 As of December 31, 2014

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

Reconciliation of Capital and Surplus For the Four Year Period Ended December 31, 2014

ConnectiCare of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2014

	Per Annual Statement
Assets	
Bonds	\$ 3,040,933
Cash, cash equivalents and short-term investments	3,265,508
Subtotals, cash and invested assets	<u>6,306,441</u>
Investment income due and accrued	17,306
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	1,043
Net deferred tax asset	31,584
Receivables from parent	120,762
Health care and other amounts receivable	36,546
Aggregate write-ins for other than invested assets	181,943
Total Assets	<u><u>\$ 6,695,625</u></u>

ConnectiCare of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2014

	Per Annual Statement
Liabilities	
Claims unpaid	\$ 699,734
Unpaid claims adjustment expenses	6,237
Premiums received in advance	67,726
General expenses due or accrued	163,235
Current federal income tax payable	950,033
Funds held under reinsurance treaties	1,803
Aggregate write-ins for other liabilities	1,703,058
 Total Liabilities	 <u>3,591,826</u>
 Aggregate write-ins for special surplus funds	 258,657
Common capital stock	1,000
Gross paid-in and contributed surplus	1,683,095
Unassigned funds (surplus)	1,161,047
Total capital and surplus	<u>3,103,799</u>
 Total Liabilities, Capital, and Surplus	 <u><u>\$ 6,695,625</u></u>

ConnectiCare of Massachusetts, Inc.
Statement of Revenue and Expenses
As of December 31, 2014

	Per Annual Statement
Net premium income	\$ 10,087,512
Aggregate write-ins for other health care related revenues	(45)
Total revenues	<u>10,087,467</u>
 Hospital and Medical:	
Hospital/medical benefits	7,243,192
Prescription drugs	1,711,785
Subtotal	<u>8,954,977</u>
 Less:	
Net reinsurance recoverables	(10,055)
Total hospital and medical	<u>8,965,032</u>
Claims adjustment expenses, including	
\$221,027 cost containment expenses	292,072
General administrative expenses	1,575,057
Total underwriting deductions	<u>10,832,161</u>
 Net underwriting gain	<u>(744,694)</u>
 Net investment income earned	116,910
Net realized capital gains	(1,365)
Net investment gains	<u>115,545</u>
 Net income after capital gains tax and	
before all other federal and foreign income taxes	(629,149)
Federal and foreign income taxes incurred	<u>(226,784)</u>
 Net Income	<u><u>\$ (402,365)</u></u>

ConnectiCare of Massachusetts, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2014

	<u>Per Annual Statement</u>
Capital and Surplus, December 31, 2013	\$ 3,517,188
Net income	(402,365)
Change in net deferred income taxes	2,321
Change in non-admitted assets	(13,990)
Change in unauthorized reinsurance	<u>645</u>
Net change in capital and surplus	<u>(413,389)</u>
Capital and Surplus, December 31, 2014	<u><u>\$ 3,103,799</u></u>

ConnectiCare of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Four Year Period Ended December 31, 2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and surplus as of December 31, prior year	\$ 3,517,188	\$ 5,603,159	\$ 8,833,118	\$11,078,920
Net income (loss)	(402,365)	391,351	2,534,308	1,104,987
Change in net deferred income tax	2,321	(2,534)	(5,050)	972
Change in non-admitted assets	(13,990)	14,201	(10,743)	9,407
Change in unauthorized reinsurance	645	11,011	51,526	138,832
Dividends to stockholders	<u> </u>	<u>(2,500,000)</u>	<u>(5,800,000)</u>	<u>(3,500,000)</u>
Net change capital and surplus for the year	<u>(413,389)</u>	<u>(2,085,971)</u>	<u>(3,229,959)</u>	<u>(2,245,802)</u>
Capital and surplus as of December 31, current year	<u><u>\$ 3,103,799</u></u>	<u><u>\$ 3,517,188</u></u>	<u><u>\$ 5,603,159</u></u>	<u><u>\$ 8,833,118</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

There are no comments on the financial statement items for the current examination.

SUBSEQUENT EVENTS

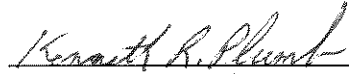
The Company's Capital and Surplus declined in 2015 by \$965,546 resulting in an RBC ratio of 283% which created a Company Action Level Event. Pursuant to 211 CMR 25.03 the Company did prepare and submit an RBC plan to the Commissioner of Insurance.

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. Recommendations of a lesser degree will be communicated to the Board of Directors in the Company's Management Letter.

SIGNATURE PAGE

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



Kenneth R. Plumb, CPA, CFE
Supervising Examiner and Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance