



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

REPORT OF EXAMINATION OF THE
FALLON COMMUNITY HEALTH PLAN, INC.

Worcester, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 4741

NAIC COMPANY CODE 95541

EMPLOYERS ID NUMBER 23-7442369

FALLON COMMUNITY HEALTH PLAN, INC.

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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 27, 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 ("M.G.L."), Chapter 176G, Section 10, an examination has been made of the financial condition and affairs of

FALLON COMMUNITY HEALTH PLAN, INC.

at its home office located at 10 Chestnut Street, Worcester, Massachusetts, 01608-2810. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Fallon Community Health Plan, Inc. ("Company" or "FCHP") was last examined as of December 31, 2011 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the three-year 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.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176G, Section 10, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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 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. The Company is required to comply with the Model Audit Rule ("MAR"). All control work papers associated with MAR compliance have been reviewed as a source of information and were tested and leveraged as 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 Information Technology 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

Fallon Community Health Plan, Inc. is a not-for-profit health maintenance organization domiciled in Massachusetts. The Company has a wholly owned subsidiary, Fallon Health and Life Assurance Company, Inc. ("FHLAC"), which is a Massachusetts stock life and health insurance company focusing on indemnity health insurance, preferred provider organization ("PPO") products and administrative services only ("ASO") arrangements.

FHLAC has a wholly owned subsidiary, UltraBenefits, Inc., ("UltraBenefits") a third party administrator in Massachusetts. UltraBenefits provides medical, dental, and disability claim processing, as well as claims management services, premium and fee-billing services and administration of Flexible Spending Accounts, Health Reimbursement Accounts and COBRA.

Effective June 20, 2013, FCHP became the sole owner of Fallon Total Care, LLC ("FTC"). FTC was originally formed as a joint venture with Magellan Health Services to provide integrated health care to individuals aged 21 to 64 years old who are dually-eligible for Medicare and Medicaid in Massachusetts. On September 18, 2013, Fallon Total Care, Inc. was approved by the Commonwealth of Massachusetts as a not-for-profit organization. On January 20, 2015, Fallon Total Care, Inc. received an exemption from federal income tax under section 501(c) (3) of the Internal Revenue Code. On September 30, 2015 FCHP ended its participation in this program.

FCHP and FCHP New York, LLC, a New York Limited Liability Company organized for charitable purposes, has partnered with Weinberg Campus, a New York based 501(c) (3) corporation, to capitalize on their respective experience and expertise to provide high-quality healthcare to the most vulnerable residents of western New York State through government health insurance programs. Specifically this joint venture, approved by the state of New York for June 1, 2014, seeks to expand the Medicare Long Term Care services currently provided by Total Aging in Place Program in Erie County in western New York state and introduce a Special Needs Medicare Advantage plan serving dual eligible individuals as well as a Program of All Inclusive Care for the Elderly program. On January 1, 2015, Internal Revenue Service approved the name change from Total Aging in Place to Fallon Health Weinberg, Inc. FCHP New York owns 70% of Fallon Health Weinberg, Inc.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Board of Directors (“the Board”) shall have and may exercise all the powers of FCHP except such powers as are conferred upon the members by law, by the articles of organization, or by the Company’s bylaws. The Board of Directors shall consist of not less than five (5) nor more than thirteen (13) voting members, with the exact number being set by the Board of Directors. The President of FCHP shall serve as an *ex officio* member of the Board of Directors with vote and shall be counted for purposes of determining the total number of Directors set forth in the preceding sentence. Any Director may resign at any time by delivering his or her resignation in writing to a meeting of the Board of Directors or to the President. Any Director may be removed from office, with or without cause, by a vote of the majority of the remaining Directors then in office at any meeting called for that purpose, provided that an *ex officio* Director shall only be removed by removal from his or her underlying office position. Directors then in office may act despite a vacancy or vacancies in the Board, and shall for this purpose be deemed to constitute a full Board of Directors. Any vacancy in the Board of Directors, however occurring, may be filled by the election of a successor by majority vote of the remaining Directors then in office from a list of nominees prepared by the Nominating Committee. Each successor elected to fill a vacancy created by an unexpired term shall hold office for the balance of the unexpired term, and until his or her successor shall be elected or appointed and qualified.

At December 31, 2014, the Company’s Board of Directors consistent of the following:

<u>Director</u>	<u>Title</u>
James R. Buonomo	Former CFO & CSO, Nypro, Inc.
W. Patrick Hughes*	President & CEO, Fallon Community Health Plan
B. John Dill	President & CEO, Colebrook Realty Services, Inc.
David W. Hillis	Chairman& CEO, AdCare, Inc.
Karin J. Landry	Managing Partner, Spring Consulting Group
Frederick M. Misilo, Jr.	Officer, Fletcher Tilton PC
Joseph N. Stolberg	Managing Partner, Stolberg, Ebeling & Blanchette,
W. Thomas Spencer Jr.	Managing Partner, Spencer Financial LLC
Ann K. Tripp	President, Opus Investment Management
Lynda M. Young, M.D.	Pediatrician, UMass Memorial Health Care System

Fallon Community Health Plan, Inc.

*Effective November 1, 2015, W. Patrick Hughes resigned as President and Chief Executive Officer. Mr. Richard Burke was appointed as President and Chief Executive Officer on March 4, 2016.

Officers

FCHP may have as its officers a Chair of the Board, a Vice Chair, a President and Chief Executive Officer, a Treasurer, a Clerk, and may have such other officers, including but not limited to Division Presidents and Executive Vice Presidents, as the Board shall appoint. The Chair of the Board, the Vice Chair, the Treasurer and the Clerk shall be elected annually by the Board at the annual meeting after the Directors' election.

The Company's officers and their respective titles at December 31, 2014 were as follows:

<u>Officer</u>	<u>Title</u>
David W. Hillis	Chairman of the Board
Lynda M. Young, M.D.	Vice Chair
Frederick M. Misilo Jr.	Clerk
Ann K. Tripp	Treasurer
W. Patrick Hughes*	President and Chief Executive Officer
Sarika Aggarwal, M.D.	Executive VP and Chief Medical Officer
Richard P. Burke **	President Senior Care Services & Government Programs and Chief Compliance Officer
Christine Cassidy	Senior VP and Chief Communications Officer
David Przesiek	Senior VP and Chief Sales Officer
Mary Ritter	Executive VP and Chief Operating Officer
Linda St. John	Senior VP and Chief Human Resources Officer
R. Scott Walker	Executive VP and Chief Financial Officer
Frank Barresi	Senior VP and Chief Information Officer

*Effective November 1, 2015, W. Patrick Hughes resigned as an Officer of FCHP.

** Effective March 4, 2016, Mr. Richard Burke was appointed President and CEO.

Committees of the Board of Directors

The Company's bylaws allow that the Board of Directors 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 Executive Committee, an Audit and Compliance Committee, an Executive Evaluation and Compensation Committee, a

Fallon Community Health Plan, Inc.

Finance Committee, Governance and Nominating Committee, a Service and Quality Oversight Committee, and such other committees as they may determine.

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. FCHP is the “ultimate controlling person” of the Holding Company System.

Transactions and Agreements with Subsidiaries and Affiliates

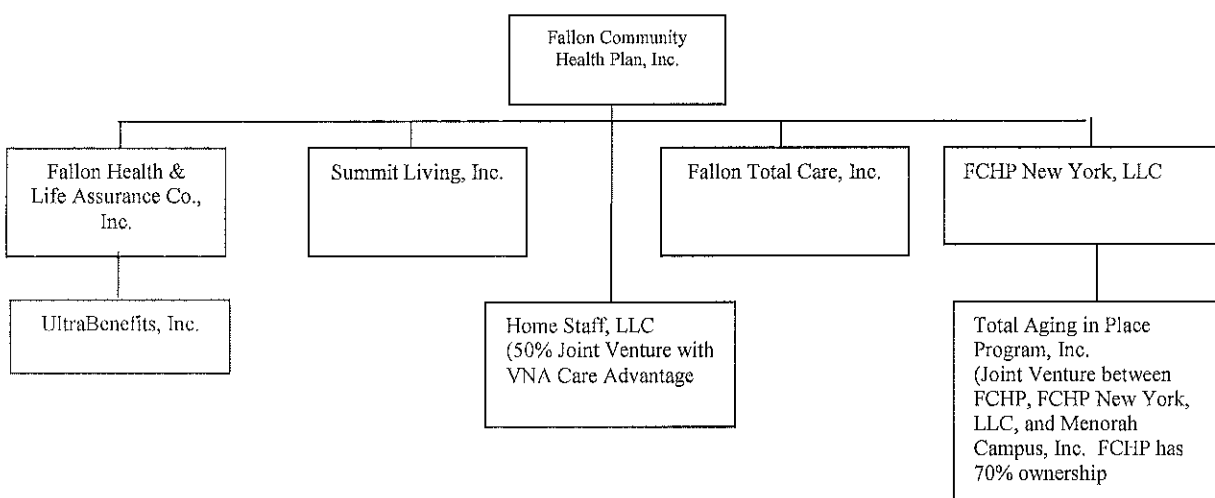
FHLAC is a wholly-owned subsidiary of FCHP. FHLAC has no employees and FCHP accordingly provides all administrative services to FHLAC, including premium collection, claims processing and operational management in return for an administrative fee that is included as an offset to expense. Settlement of intercompany balances takes place monthly.

In order to offset poor operating results and maintain adequate levels of capital, FCHP has made capital contributions to FHLAC during the period covered by this exam as follows:

<u>Year</u>	<u>Amount</u>
2014	\$12,950,000
2013	8,500,000
2012	<u>10,600,000</u>
Total	<u>\$32,050,000</u>

Organization Chart

A summary of ownership and relationship 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 headquartered in Worcester, Massachusetts and only licensed to transact business in Massachusetts. FCHP historically focused on Worcester County but has since expanded its service area to most of Massachusetts. FCHP's Direct Care service area includes communities primarily in central Massachusetts and suburban Boston. FCHP's Select Care service area encompasses communities statewide, excluding portions of Southeastern Massachusetts, Cape Cod, Martha's Vineyard and Nantucket.

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

FCHP carries reinsurance against excessive claims utilization. Under its reinsurance policy, the Company is reimbursed for 90% of all claims over the policy deductible, which is \$1,000,000, except for Medicaid rating categories 2, 9, and 10 which have \$350,000 threshold in 2014 and for Medicaid rating categories 2, 5, and 7 in 2013. The per-member per year limit is \$5,000,000 in 2014, \$3,000,000 in 2013 and \$2,000,000 in 2012. 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

Fallon Community Health Plan, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2014

	Per Annual Statement
Assets	
Bonds	\$195,405,652
Common Stocks	158,872,208
Cash, cash equivalents and short-term investments	8,150,061
Other invested assets	3,013,736
Subtotal, cash and invested assets	365,441,657
Investment income due and accrued	1,143,002
Premiums and considerations: Uncollected premiums and agents' balances	8,575,559
Reinsurance: Amounts recoverable from reinsurers	2,165,544
Furniture and equipment	271,240
Receivables from parent, subsidiaries and affiliates	3,369,554
Healthcare and other amounts receivable	9,883,873
	<hr/>
Total Assets	\$390,850,429
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Liabilities, Capital and Surplus	
Claims unpaid	\$145,061,157
Accrued medical incentive pool and bonus amounts	13,408,919
Unpaid claims adjustment expense	1,862,272
Aggregate health policy reserves	19,839,000
Premiums received in advance	7,361,388
General expense due or accrued	16,769,697
Amounts due parent, subsidiaries and affiliates	4,826,682
Payable for securities	44,390
Aggregate write-ins for other liabilities	13,239,340
Total Liabilities	222,412,845
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Aggregate write-ins for special purpose funds	10,082,662
Unassigned funds (surplus)	158,354,922
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Total capital and surplus	168,437,584
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Total liabilities, capital and surplus	\$390,850,429
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Fallon Community Health Plan, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2014

	Per Annual Statement
Member Months	1,804,696
Net premium income	\$1,103,651,704
Total revenue	1,103,651,704
Less:	
Hospital/medical benefits	777,614,178
Other professional services	60,110,077
Outside referrals	3,158,168
Emergency room and out-of-area	2,296,850
Prescription drugs	93,504,391
Aggregate write-ins for other hospital and medical	6,235,137
Incentive pool, withhold adjustments& bonus amounts	14,101,942
Net reinsurance recoveries	2,174,001
Total hospital and medical	954,846,742
Claims adjustment expense	14,330,938
General administrative expense	124,454,202
Increase in reserves for life and accident and health contracts	(2,450,000)
Total underwriting deductions	1,091,181,882
Net underwriting gain	12,469,822
Net investment income earned	9,402,282
Net realized gains	4,757,003
Net investment gains	14,159,285
Aggregate write-ins for other income or expenses	29,026
Net income after capital gains tax and before all other federal income taxes	26,658,133
Net Income	\$26,658,133

Fallon Community Health Plan, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2014

	<u>Per Annual Statement</u>
Surplus as regards policyholders, December 31, 2013	\$166,986,911
Net income	26,658,133
Change in net unrealized capital gains (losses)	(29,716,064)
Change in non-admitted assets	<u>4,508,604</u>
Net change in capital and surplus	1,450,673
Surplus as regards policyholders, December 31, 2014	<u>\$168,437,584</u>

Fallon Community Health Plan, Inc.
Reconciliation of Capital and Surplus
For Each of 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>\$166,986,911</u>	<u>\$154,453,668</u>	<u>\$127,915,198</u>
Net income	26,658,133	28,927,518	23,686,885
Change in net unrealized (losses)	(29,716,064)	(9,326,754)	(1,224,729)
Change in non-admitted assets	4,508,604	(7,067,521)	(1,780,217)
Change in pension liability	-	-	5,856,531
Net change in capital and surplus	<u>1,450,673</u>	<u>12,533,243</u>	<u>26,538,470</u>
Capital and surplus, December 31, current year	<u><u>\$168,437,584</u></u>	<u><u>\$166,986,911</u></u>	<u><u>\$154,453,668</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

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

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 FCHP's UCL are reasonable as of December 31, 2014. The Company's premium deficiency reserve calculation was reviewed and found to be reasonable as of December 31, 2014.

On January 1, 2014, FCHP became subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). This annual fee is to 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 that is written during the preceding calendar year. A health insurance entity's portion of the assessment becomes payable once the entity provides health insurance for each calendar year beginning on or after January 1 of the year the fee is due. In 2014, FCHP did write health insurance subject to the ACA assessment and paid the 2014 assessment amount of \$6,551,750 in 2015. FCHP has estimated the 2015 assessment payable in 2016 to be \$6,676,872.

SUBSEQUENT EVENTS

There were no subsequent events through the date of this report.

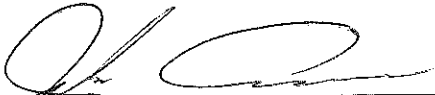
SUMMARY OF RECOMMENDATIONS

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.



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance