

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

***REPORT OF EXAMINATION OF THE***  
**MINUTEMAN HEALTH, INCORPORATED**

**Boston, Massachusetts**

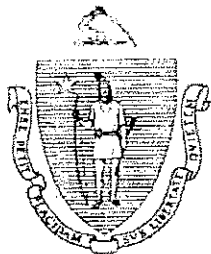
**As of December 31, 2014**

**NAIC GROUP CODE 0000**  
**NAIC COMPANY CODE 15010**  
**EMPLOYER ID NO. 04-3596033**

# MINUTEMAN HEALTH, INCORPORATED

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

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COMMISSIONER OF INSURANCE

May 24, 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

**MINUTEMAN HEALTH, INCORPORATED**

at its home office located at 179 Lincoln Street, Boston, Massachusetts, 02111. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

This is the first examination of Minuteman Health Incorporated ("Minuteman" or "Company") conducted by the Massachusetts Division of Insurance ("Division") and covers the period from September 23, 2011 (the date of incorporation) 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 KPMG, LLP an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company's statutory basis financial statements for the year ended December 31, 2014. 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 Baker Tilly Virchow Krause, LLP ("Baker Tilly") 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, and investments. Lewis & Ellis, Inc., ("Lewis and Ellis") actuaries and consultants were contracted by Baker Tilly to perform the review of the actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

## **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings identified during the examination.

### **COMPANY HISTORY**

#### **General**

Minuteman was incorporated on September 23, 2011. The Company is a Consumer Operated and Oriented Plan ("Co-Op") formed under the Patient Protection and Affordable Care Act ("PPACA"). PPACA established the creation of Co-Ops in order to foster the creation of qualified not-for-profit health insurers to offer a wider choice of health plans in the individual and small group markets and compete on health insurance exchanges.

On August 13, 2012 Minuteman and the Centers for Medicare and Medicaid Services ("CMS") executed a loan agreement providing the company with a maximum loan value of \$12.8 million for Start-Up Loan funding and another \$75.6 million in Solvency Loan funding for the purpose of establishing a Co-Op. On November 22, 2013, the agreement was amended to increase the Start-Up Loan amount to \$14.97 million. An additional amendment, on December 10, 2013, was executed following the approved expansion into the State of New Hampshire to increase both the Start-Up and Solvency Loan amounts to \$25.1 million and \$131.4 million, respectively. Repayment of the Start-Up Loan amounts are due five years after disbursement. Amounts awarded under the Solvency Loan are considered a Surplus Note and repayment is based on the schedule included in the loan agreement, though subject to prior approval from the Massachusetts Commissioner of Insurance. As of December 31, 2014 the Company has borrowed \$24.3 million of the Start-Up Loan commitment and \$42.3 million of the Solvency Loan commitment.

Minuteman began providing health insurance benefits effective for the policy period beginning January 1, 2014 in Massachusetts. Expansion into the State of New Hampshire was effective for the policy period beginning on January 1, 2015.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

According to the bylaws of the Company, each Director is elected to a term of two years to the Board of Directors ("Board"). Expiration of these terms is staggered so that approximately one-half of the Directors shall be subject to election each year. A Director may serve three consecutive terms to be followed by a one year resignation from the Board prior to being eligible to serve another term.

Due to the start-up nature of the Company, the bylaws established a Formation Board providing oversight prior to health plan membership enrollment. At December 31, 2014, the Formation Board was comprised of nine (9) Directors. The Directors' names and business affiliation were as follows:

## Minuteman Health, Incorporated

<u>Name of Director</u>	<u>Business Affiliation</u>
Ellen Zane (Chair)	President & CEO, Tufts Medical Center (Retired)
Robert Brooks	Chief Business Development Officer - New England, Vanguard Health Systems
Scott Colby	Executive Vice President, New Hampshire Medical Society
Kelly DeKeyser	Consultant/Director, Start Health Advisors
Brad Kimler	Consultant, Fidelity Investments
Marvin Konstam	Chief Physician Executive, Pratt Medical Group
John (Chris) Kryder	Physician, Valence Health
Chris Perna	Chief Executive Officer, The Eden Alternative, Inc.
Michael Taylor	Supervisor, Aon Hewitt

This Formation Board will transition to an Operational Board during 2015, and by 2016 the Board will consist entirely of Directors elected by a majority vote of a quorum of the Company's members that are age 18 or older.

### Committees of the Board of Directors

The Board has established a Finance & Audit Committee, the purpose of which is to carry out the responsibilities delegated to it by the Board and provide assistance to the Board in fulfilling the Board's responsibilities to support the mission of the Company in all corporate accounting activities and reporting practices and with respect to the quality and integrity of financial reports. The Finance & Audit Committee shall have voting members of at least three Directors, other qualified members appointed by the Board, and non-voting members, including the Chief Executive Officer ("CEO"), Controller, and Treasurer. As documented in the February 2015 Board minutes, the Finance & Audit Committee is comprised of a Chairman, Bob Brooks, and Directors, Kelly DeKeyser, Chris Kryder, and Marvin Konstam. Specific responsibilities of this Committee include review and recommendations to the Board of the annual operating and capital budget, and review of financial and investment policies and performance. The Finance & Audit Committee will make additional recommendations to the Board when necessary and retain outside advisors when determined appropriate to do so.

In addition to the Finance & Audit Committee, the Board has formed a Compensation Committee tasked with determining compensation, incentives, and benefits for Officers and Directors, and a Nominating Committee responsible for identifying qualified candidates to fill vacant positions of the Board of Directors. As documented in the February 2015 Board minutes, the Compensation Committee is comprised of Directors Ellen Zane, Brad Kimler, and Chris Perna. The Nominating Committee consists of Directors Chris Kryder, Brad Kimler, and Michael Taylor.

### Officers

The Officers of the Company shall consist of a Chair of the Board, Clerk, President, and Treasurer. In addition to the Officers included in the Company's bylaws, Minuteman has established a number of officer and management positions responsible for the company operations. The Officers and their respective titles at December 31, 2014 are as follows:

## Minuteman Health, Incorporated

<u>Name</u>	<u>Title</u>
Thomas Policelli	Chief Executive Officer
Robert Fallon <sup>1</sup>	Chief Financial Officer
Jan Cook	Chief Medical Officer
Michael Boudreau	Chief Operating Officer
Robert Chin	Chief Information Officer
Susan Brown	General Counsel

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed as a health maintenance organization in Massachusetts and was authorized to write health insurance business in Massachusetts effective January 1, 2014. In addition, the Company is licensed as a health maintenance organization in New Hampshire and is authorized to write health insurance in New Hampshire effective January 1, 2015.

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**

The Company participates in the temporary Transitional Reinsurance program established by the PPACA. Under this program, Minuteman pays a Per Member Per Month ("PMPM") premium rate into the program's reinsurance pool. Amounts recovered under the program are based on the total annual medical costs for covered benefits of an enrollee in an individual market plan. Payments will compensate a portion of these costs incurred above an attachment point, subject to an annual cap. The 2014 attachment point and reinsurance cap were \$45,000 and \$250,000, respectively. For the year ended December 31, 2014, Minuteman recovered \$3,733 from this temporary program. In addition, the Company has private reinsurance with Munich Reinsurance America, Inc. ("Munich Re"). Under this agreement, Minuteman retains the first \$60,000 in losses for small group plans and \$250,000 in losses for large group and individual plans with Munich Re assuming 90% of the amounts in excess of those deductibles with a per covered member maximum of \$2 million. The Company has not incurred claims in excess of these deductibles for the year ended December 31, 2014.

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<sup>1</sup> Mr. Fallon subsequently resigned in 2015.

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by 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 the Company's management.

Statement of Assets, Liabilities, and 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 Two-Year Period Ended December 31, 2014



Minuteman Health, Inc.  
Statement of Assets, Liabilities, Capital and Surplus  
As of December 31, 2014

<b>Assets</b>	<b>Per Annual Statement</b>
Bonds	\$ 26,682,228
Cash and short-term investments	13,305,622
Subtotals, cash and invested assets	<u>39,987,850</u>
Investment income due and accrued	99,882
Reinsurance: Amounts recoverable from reinsurers	3,733
Electronic data processing equipment and software	100,575
Aggregate write-ins for invested assets:	
Miscellaneous Receivables	105,000
Total Assets	<u><u>\$ 40,297,040</u></u>
 <b>Liabilities</b>	
Claims Unpaid	\$ 421,779
Unpaid claim adjustment expenses	25,438
Aggregate health policy reserves	1,865,905
Premiums received in advance	494,181
General expenses	2,623,758
Ceded reinsurance premiums payable	85,332
Borrowed money	24,289,495
Aggregate write-ins for liabilities:	
Risk adjustment liability	1,234,242
Total Liabilities	<u>31,040,130</u>
Surplus notes	42,290,857
Unassigned funds (surplus)	<u>(33,033,948)</u>
Surplus as regards policyholders	<u>9,256,909</u>
Total Liabilities, Capital, and Surplus	<u><u>\$ 40,297,040</u></u>

Minuteman Health, Inc.  
Statement of Revenue and Expenses  
As of December 31, 2014

	Per Annual Statement
Net premium income	\$ 2,870,576
Hospital and Medical:	
Hospital/medical benefits	1,518,407
Prescription drugs	228,380
Subtotal	<u>1,746,787</u>
Less:	
Net reinsurance recoverables	<u>3,733</u>
Total hospital and medical	1,743,054
Claims adjustment expenses, including	
\$339,203 cost containment expenses	1,055,808
General administrative expenses	18,508,445
Increase in reserves for life and	
accident and health contracts	<u>1,865,905</u>
Total underwriting deductions	<u>23,173,212</u>
Net underwriting gain	<u>(20,302,636)</u>
Net investment income earned	64,307
Net realized capital gains	<u>0</u>
Net investment gains	<u>64,307</u>
Net income after capital gains tax and	
before all other federal and foreign income taxes	(20,238,329)
Federal and foreign income taxes incurred	<u>0</u>
Net Income (Loss)	<u><u>\$ (20,238,329)</u></u>

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

	<u>Per Annual Statement</u>
Surplus as regards policyholders, Capital and Surplus, December 31, 2013	\$ 29,820,435
Net income (Loss)	(20,238,329)
Change in nonadmitted assets	<u>(325,196)</u>
Net change in capital and surplus	<u>(20,563,525)</u>
Capital and Surplus, December 31, 2014	<u><u>\$ 9,256,909</u></u>

Minuteman Health, Inc.  
Reconciliation of Capital and Surplus  
For the Two Year Period Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
Capital and surplus as of December 31, prior year	\$ 29,820,435	\$ (1,703,435)
Net income	(20,238,329)	(10,441,235)
Change in nonadmitted assets	(325,196)	(325,752)
Change in surplus notes		<u>42,290,857</u>
Net change in capital and surplus for the year	<u>(20,563,525)</u>	<u>31,523,870</u>
Capital and surplus, December 31, current year	<u>\$ 9,256,909</u>	<u>\$ 29,820,435</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's financial statements require the use of significant accounting estimates including the PPACA risk adjustment liability and risk corridor receivable, premium deficiency reserves and unpaid claims liabilities. As of December 31, 2014 the Company reported a risk adjustment liability of over \$1.2 million. As of December 31, 2014 the Company recorded a risk corridor receivable of approximately \$281,000; however, the Company recognized this as a non-admitted asset as payment from CMS is uncertain. See additional discussion under the "Subsequent Events" section of this report.

The Company uses estimates for determining its claims incurred but not yet reported, which are based on claim payment patterns, healthcare trends and membership as well as 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.

Lewis & Ellis prepared independent estimates of Unpaid Claim Liabilities ("UCL") as of December 31, 2014. 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 Lewis & Ellis, indicate that Minuteman's UCL estimates (gross of reinsurance) are reasonable as of December 31, 2014.

The Company recorded a premium deficiency reserve of \$1.9 million and unpaid claims and claim adjustment expense liabilities of approximately \$447,000 at December 31, 2014. Lewis and Ellis reviewed these estimates and determined them to be reasonable. Minuteman utilized a non-standard approach to calculate the premium deficiency reserve, which recognized the start-up nature of the Company.

Finally, the Company is highly dependent on the continued availability of funding provided by the CMS Solvency Loans in order to meet the State of Massachusetts and CMS capital requirements. Such continued funding is contingent upon the Company's compliance with loan agreement covenants and CMS' commitment to continued funding of the Solvency Loan.

### **SUBSEQUENT EVENTS**

In June 2015, the Company received its final risk adjustment liability assessment from CMS of \$3.1 million. The assessment related to 2014 underwriting results and was \$1.8 million greater than the estimate recorded at December 31, 2014. The increase in the estimate was recorded as an expense in 2015. In October 2015, CMS announced that the risk corridor program will pay out only 12.6% of the funds owed to insurers for the 2014 calendar year. CMS further announced that amounts collected by the program for the 2015 and 2016, if necessary, will first be used to pay the amounts owed in 2014. As of September 30, 2015 the Company has recorded a risk corridor receivable of \$4.4 million; however, the Company continues to recognize this as a non-admitted asset given the uncertainty of receiving any payment from CMS

During 2015, the Company has received additional proceeds under its CMS Solvency Loan agreement of \$53.8 million. As of December 31, 2015 the Solvency Loan balance is \$96 million and the Company has approximately \$35 million of additional funding remaining under the Solvency Loan.

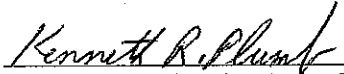
### **SUMMARY OF RECOMMENDATIONS**

The Company's operations as a Co-Op are still in the early stages, with little actual experience in the market and with its membership. Adequate pricing is critical to the successful operation of the Company. As evidenced by the premium deficiency reserve, the Company's pricing for the year ended December 31, 2014 was not adequate to cover claims and other administrative expenses. The pricing of policies is impacted by the PPACA risk sharing programs, i.e. Risk Adjustment and Risk Corridor. The Examiners recommend that the Company ensure that appropriate consideration is given to these risk sharing programs, as well as projected claims costs and administrative expenses, when pricing the company's plans.

**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 Baker Tilly who participated in this examination hereby is acknowledged.

  
Kenneth R. Plumb, CPA, CFE  
Examiner-in-Charge  
Commonwealth of Massachusetts  
Division of Insurance