



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

REPORT OF EXAMINATION OF THE
NEIGHBORHOOD HEALTH PLAN, INCORPORATED

Boston, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 0000

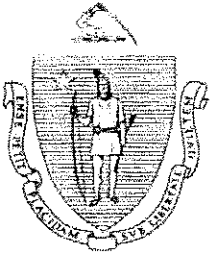
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NEIGHBORHOOD HEALTH PLAN, INCORPORATED

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COMMONWEALTH OF MASSACHUSETTS
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January 26, 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

NEIGHBORHOOD HEALTH PLAN, INCORPORATED

at its home office located at 253 Summer Street, Boston, Massachusetts, 02210-1120. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Neighborhood Health Plan, Inc. ("Plan", "Company" or "NHP") was last examined as of December 31, 2012 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the two-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 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 PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar years 2014 and 2013. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, KPMG LLP ("KPMG") was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2014. Additionally, KPMG reviewed 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.

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, 2012. The report contained the following Comments and Recommendations:

- It was recommended that the Board draft and approve charters for all committees. All charters have been provided as of this examination date.
- It was recommended that the Plan properly disclose non-admitted receivable balances in the Annual Statement as required by Statutory Accounting Principles. The examination team has verified that the Company is complying with Statutory Accounting Principles regarding the disclosure of non-admitted receivable balances.
- Corporate governance best practices should be enacted to document and disclose all Member, Board and Committee activities. The current examination found the Plan to have documented the majority of their activities however, the election and termination of the Chief Financial Officer was not documented.

There were no significant findings of fact noted during the current examination.

COMPANY HISTORY

The Plan was founded by the Massachusetts League of Community Health Centers ("League") and the Greater Boston Forum for Health Action ("Forum"), and incorporated on May 22, 1986 under the provisions of Massachusetts General Law ("M.G.L."), Chapter 180 for the purpose of arranging for the delivery of comprehensive health services on a prepaid basis. On November 9, 1987, the Division licensed the Plan to operate as a Health Maintenance Organization ("HMO") under the provisions of M.G.L. Chapter 176G. The Plan is a non-profit HMO, which contracts with individuals, businesses and the Commonwealth of Massachusetts to provide health care coverage to individuals, employees, Medicaid beneficiaries and Exchange participants. Initially allowed to conduct business in greater Boston only, the Plan now operates throughout Massachusetts.

In September 1999, Community Medical Alliance Clinical Group became a wholly owned affiliate of NHP. In January 2000, Community Medical Alliance Clinical Group changed its name to Community Medical Alliance, Inc., ("CMA"). CMA provides direct care and care management services to certain Plan members and is reimbursed by the Plan on a capitated basis.

NHP became an affiliate of Partners HealthCare System, Inc. ("Partners") on October 1, 2012. Partners is a Massachusetts not-for-profit corporation which operates two tertiary and seven community acute care hospitals in Massachusetts. Partners also operates physician organizations and practices, a home health agency, nursing homes, and a graduate level program for health professionals. As part of the Affiliation Agreement, Partners contributed capital to NHP to retire the Blue Cross Blue Shield of Massachusetts Surplus Note along with the associated accrued interest for \$10.1 million. Partners also contributed \$1.4 million to retire the Deferred Lease Liability on NHP's home office rental property at 253 Summer Street.

In June 2014 the Company's independent auditors, PricewaterhouseCoopers ("PwC") found that a Premium Deficiency Reserve ("PDR") would be required for 2013 in the amount of \$81.2 million. As a result of this finding, the Division required NHP to re-file their 2013 Annual

Statement and the March 2014 Quarterly Statement. On June 27, 2014, Partners made a capital contribution to NHP in the amount of \$86 million to comply with the 2012 Affiliation Agreement, which requires Partners to maintain a minimum surplus level to the 300% Authorized Control Level Risk Based Capital ("RBC").

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Plan shall be managed by the Board of Directors who shall manage the business and affairs of the Plan. The Board of Directors shall consist of thirteen Directors with one Director being the President and Chief Executive Officer ("CEO") of NHP, who shall serve *ex officio*. Twelve other members will be elected by the Partners Board of Directors. Eight elected Directors (one of whom will be a sitting member of Partners Board of Directors) will be nominated by Partners after consultation with a designated representative of the Health Center Directors. Four elected Directors ("Health Care Directors") will be community health center chief executive officers or other community health center leaders who are nominated by the President and Chief Executive Officer of NHP and the Chief Executive Officer of the Massachusetts League of Community Health Centers.

The 2012 revised bylaws specify the Board shall meet six times per year and special meetings shall be held as may be considered necessary by the Member, the Chair, the President and CEO, or by a majority of the Board of Directors. The minutes of the Board of Directors meetings indicated that meetings were held six times in 2013 and six times in 2014. At any meeting of the Board of Directors, a majority of Directors constitutes a quorum.

At December 31, 2014, the Board was comprised of eleven members, which is not in compliance with the Plan's bylaws. The members' names and business affiliation were as follows:

Neighborhood Health Plan, Incorporated

<u>Name of Director</u>	<u>Business Affiliation</u>
Matthew E. Fishman Chairman	Vice President, Community Health Partners HealthCare System
Joseph R. Betancourt, M.D.	Director, Disparities Solutions Center Massachusetts General Hospital
Deborah C. Enos (*)	President and Chief Executive Officer Neighborhood Health Plan
Richard Holbrook	Chairman and CEO Eastern Bank
James W. Hunt, Jr.	President and Chief Executive Officer Massachusetts League of Community Health Centers
Robert J. Ingala	Chief Executive Officer Greater Lawrence Family Health Center
Toni McGuire	President and CEO Edward M. Kennedy Community Health Center
Paulette Shaw Querner	Corporate Vice President, Community Health Centers Harbor Health Services, Inc.
G. Neal Ryland	Chairman of the Compensation Committee for the Massachusetts General Physicians Organization
Allen Smith, M.D.	President, Brigham and Women's Physicians Organization
Steven J. Tringale	Managing Director Tringale Health Strategies, LLC

* Deborah Enos resigned effective February 1, 2015.

Officers

The bylaws provide that the officers of the Plan shall have a Chair, one or more Vice Chairs, a President and CEO, a Secretary 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 and serve until the next meeting following the annual meeting.

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

<u>Name of Officer</u>	<u>Title</u>
Matthew Fishman	Chair and Director
David H. Segal	Chief Operating Officer
Peter K. Markell	Treasurer
Douglas Thompson	Interim Chief Financial Officer
Elizabeth Azano	Secretary

Committees of the Board

The following four subcommittees designated by the Board of Directors were in place as of the examination date:

Audit and Compliance Committee

The Audit and Compliance Committee is comprised of four Board members all of whom are independent. 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: Richard Holbrook, Chairman, G. Neal Ryland, Robert J. Ingala, and James W. Hunt, Jr.

Finance Committee

The Finance Committee is comprised of six Board members five of whom are independent. The Committee advises the Board on the Plan's financial goals, strategies and activities. The committee will review budgeting, performance monitoring, investments, and long-term financial strategy. Directors serving on this Committee at December 31, 2014 were as follows: Steven J. Tringale, Chairman, Richard Holbrook, James W. Hunt, Jr., Paulette Shaw Querner, G. Neal Ryland and Deborah C. Enos.

Patient Care Assessment Committee

The Patient Care Assessment Committee is comprised of twelve members all of whom are independent, with one being Joseph Betancourt M.D., a Director, to comply with the bylaws. This Committee was established as a standing peer review Committee, to perform such duties as the Directors may specify and as be required by law. In addition, the Committee shall make recommendations and decisions concerning the Patient Care Assessment Program and shall make periodic reports of its activities to the Directors.

Compensation Committee

The Compensation Committee is comprised of three Board members all of whom are independent. The Committee is responsible for developing and overseeing executive compensation programs at NHP which includes establishing the overall design of the program and the approval of individual compensation arrangements for NHP executives. Directors serving on this Committee at December 31, 2014 were as follows: Toni McGuire, Chairman, Matthew Fishman and Steven Tringale.

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 M.G.L. Chapter 175, Section 206C. Partners is the ultimate controlling person for the Plan.

Transactions and Agreements with Subsidiaries and Affiliates

As part of the Partners Affiliation Agreement, Partners has executed a Risk Based Capital Guaranty with the Plan pursuant to which Partners will guarantee that NHP shall have and maintain capital and surplus in the minimum amount equivalent to 300% of the Authorized Control Level RBC, as defined by the Division in 211 CMR 25.10.

All cash and investments of NHP will be managed by the Partners Treasury Office under a new Statement of Investment Policy approved by NHP's Board in consultation with the Partners Investment Committee.

On the effective date of the affiliation, NHP established a Community Health Center ("CHC") Grant Program totaling \$6 million per year ("Grant Amount") pursuant to which NHP will make grants to all community health centers that are part of the Massachusetts League of Community Health Centers. NHP will fund the CHC Grant Program each year with the return on the NHP investment portfolio that is in excess of 2.75%. If, in any given year, the excess return is less the Grant Amount, Partners will contribute to NHP the amount of the difference between the excess return and Grant Amount. Commencing in fiscal year 2015, in the event NHP's average operating income for the preceding three (3) fiscal year period is not breakeven or better, NHP may not make any CHC grant without the prior written approval of Partners.

Effective September 1, 1999, the Plan entered into a ten-year agreement with their affiliate, Community Medical Alliance, Inc. to provide certain accounting, management, and other services. The agreement shall be automatically renewed for successive five-year terms unless either party gives notice of nonrenewal at least one hundred eighty days prior to expiration of the current term. CMA pays the Plan an amount equal to their administrative services budget in twelve equal monthly installments.

Organization Chart

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

PARTNERS HEALTHCARE SYSTEMS, INC.

Neighborhood Health Plan, Inc.

Two Physicians Appointed by NHP
Community Medical Alliance, Inc.

Brigham and Women's Health Care, Inc.

Biosciences Research Foundation, Inc.
BWH Research, Inc.
Brigham Community Practices, Inc.
The Brigham and Women's Hospital, Inc.
Partners Innovation Fund LLC (50%)
Brigham and Women's Physicians Organization, Inc.
Brigham Medical Research and Educational Foundation, Inc.
Brigham and Women's Obstetrics and Gynecology Research
and Education Foundation, Inc.
Brigham Pathology Research and Educational Foundation, Inc.
Radiation Therapy of Southeastern MA, LLC (51%)
Brigham and Women's Faulkner Hospital, Inc.
Village Manor Nursing Home, Inc.

The Massachusetts General Hospital

The MGH Health Services Corp.
North End Community Health Committee, Inc.
The General Hospital Corporation
Partners Innovation Fund LLC (50%)
Massachusetts General Physicians Organization, Inc.
McLean HealthCare, Inc.
The McLean Hospital Corporation
The MGH Institute of Health Professions, Inc.
Martha's Vineyard Hospital, Inc.
WNR, Inc.
Nantucket Cottage Hospital
Nantucket Cottage Hospital Foundation, Inc.
Nantucket Physician Organization, Inc.
Cooley Dickinson Health Care Corporation
CD Practice Associates, Inc.
VNA & Hospice of Cooley Dickinson, Inc.
Cooley Dickinson Hospital, Inc.
Cooley Dickinson Hospital, Inc.
Cooley Dickinson Physician Hospital Organization, Inc.

NSMC HealthCare, Inc.

North Shore Medical Center, Inc.
North Shore Health System, Inc.
North Shore Physicians Group, Inc.

Newton-Wellesley Health Care System, Inc.

Newton-Wellesley Ambulatory Services, Inc.
Newton-Wellesley Hospital Charitable Foundation, Inc.
Newton-Wellesley Children's Corner, Inc.
Newton-Wellesley Hospital
Newton-Wellesley Physician Hospital Organization, Inc.

Partners Continuing Care, Inc.

The Spaulding Rehabilitation Hospital Corporation
Rehabilitation Hospital of the Cape and Islands Corporation
Shaughnessy-Kaplan Rehabilitation Hospital, Inc.
Partners Home Care, Inc.
Partners Hospice, Inc.
Partners Private Care, LLC
FRC, Inc.
Spaulding Hospital-Cambridge, Inc.

TERRITORY AND PLAN OF OPERATION

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

The Plan is a Network-Model HMO, which arranges for the delivery of comprehensive health care services on a prepaid basis to covered members. Physicians providing services to Plan members are not employees of the HMO, but are affiliated through contractual relationships.

Approximately 74.6% percent of the Plan's business is derived from providing health care coverage to Medicaid beneficiaries through a Managed Care Organization contract with the Commonwealth of Massachusetts Division of Medical Assistance. The remaining business is with Commonwealth Connector and commercial with approximately 3.9% percent and 21.5% percent respectively.

REINSURANCE

The Plan 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 NHP for 90% of eligible expenses for commercial claims, Medicaid (All Other) and Medicaid (RC2) in excess of \$1,000,000. The maximum reinsurance amount payable during any Agreement Period for each Member shall be \$10,000,000.

Within the Plan's Commonwealth Connector business is a stop loss contract option to reinsure the Commonwealth Care Members for 75% of eligible expenses in excess of \$130,000.

Since the inception of the Affordable Care Act ("ACA") the Company participates in the Federal Affordable Care Act reinsurance program. For 2014 the Federal program will reimburse for 80% of the claims in excess of \$45,000 up to \$250,000.

The Plan did not assume any reinsurance risk during the years under examination.

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 Two-Year Period Ended December 31, 2014

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

	Per Annual Statement
Assets	
Bonds	\$ 27,410,948
Common stocks	313,227,630
Cash, cash equivalents and short-term investments	(3,443,402)
Subtotals, cash and invested assets	337,195,176
Investment income due and accrued	40,596
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	7,048,664
Accrued retrospective premiums	52,584,597
Reinsurance:	
Amounts recoverable from reinsurers	13,677,496
Electronic data processing equipment and software	2,087,852
Health care and other amounts receivable	3,591,150
Aggregate write-ins for other than invested assets	4,137,673
Total Assets	<u>\$ 420,363,204</u>

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

	Per Annual Statement
Liabilities	
Claims unpaid	\$ 169,459,349
Unpaid claims adjustment expenses	3,896,634
Aggregate health policy reserves, including the liability of \$315,985 for medical loss ratio rebate per the Public Health Service Act	98,744,265
Premiums received in advance	3,060,760
General expenses due or accrued	10,854,112
Amounts withheld or retained for the account of others	69,767
Amounts due to parents, subsidiaries, and affiliates	944,059
Aggregate write-ins for other liabilities	4,616,762
 Total Liabilities	 <u>291,645,708</u>
 Aggregate write-ins for special surplus funds	 2,787,126
Gross paid-in and contributed surplus	157,514,595
Unassigned funds (surplus)	<u>(31,584,225)</u>
Total capital and surplus	<u>128,717,496</u>
 Total Liabilities, Capital, and Surplus	 <u><u>\$ 420,363,204</u></u>

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

	Per Annual Statement
Net premium income	\$ 1,717,816,505
Hospital and Medical:	
Hospital/medical benefits	1,237,006,375
Other professional services	169,595,694
Emergency room and out-of-area	60,676,459
Prescription drugs	280,517,774
Aggregate write-in for other hospital and medical:	
DMA & provider settlements	3,317,678
Subtotal	1,751,113,980
Less:	
Net reinsurance recoverables	14,867,127
Total hospital and medical	1,736,246,853
Claims adjustment expenses, including	
\$30,059,971 cost containment expenses	57,568,925
General administrative expenses	62,290,762
Increase in reserves for life and	
accident and health contracts	(20,105,449)
Total underwriting deductions	1,836,001,091
Net underwriting gain	(118,184,586)
Net investment income earned	3,733,393
Net realized capital gains	9,562,798
Net investment gains	13,296,191
Aggregate write-in for other income or expenses:	
Grant revenue or (expense)	(6,000,000)
Adjustment to uncollected premium reserve	7,203,055
Adjustment to reinsurance recoverable reserve	214,533
PHS CCHIP rate reimbursement	2,144,308
Miscellaneous income	27,389
Total other income or (expenses)	3,589,285
Net income after capital gains tax and	
before all other federal and foreign income taxes	(101,299,110)
Federal and foreign income taxes incurred	0
Net Income	\$ (101,299,110)

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

	<u>Per Annual Statement</u>
Capital and Surplus, December 31, 2013	\$ 97,162,479
Net income	(101,299,110)
Change in net unrealized capital gains	(5,876,054)
Change in non-admitted assets	(7,269,819)
Surplus adjustments:	
Paid in	<u>146,000,000</u>
Net change in capital and surplus	<u>31,555,017</u>
Capital and Surplus, December 31, 2014	<u><u>\$ 128,717,496</u></u>

Neighborhood Health Plan, 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	\$ 97,162,479	\$ 154,040,241
Net income (loss)	(101,299,110)	(61,772,002)
Change in net unrealized capital gains (losses)	(5,876,054)	5,874,481
Change in non-admitted assets	(7,269,819)	(980,241)
Surplus adjustments: Paid in	<u>146,000,000</u>	
Net change capital and surplus for the year	<u>31,555,017</u>	<u>(56,877,762)</u>
Capital and surplus as of December 31, current year	<u><u>\$ 128,717,496</u></u>	<u><u>\$ 97,162,479</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

In conjunction with the Division's regulatory examination of the Plan's financial statements, an independent certified public accounting firm, KPMG LLP, was retained by the Division to review the methodology and adequacy of the Unpaid Claim Liability of the Plan as of December 31, 2014, and to perform a review of the Plan's premium rating processes including the Plan's premium deficiency and rate adequacy analysis. A summary of findings is noted below:

- The Unpaid Claim Liability as of December 31, 2014 is fairly stated in aggregate in all material respects.
- The reserve is calculated in accordance with Massachusetts' laws and regulations and NAIC requirements.
- NHP is holding approximately 3% of the actuarially estimated unpaid claim amount for Loss Adjustment Expenses which appears reasonable.
- The Plan's premium deficiency reserve calculation was found to be reasonable, with no additional premium deficiency reserves required at December 31, 2014.

SUBSEQUENT EVENTS

On November 5, 2014 Deborah Enos announced her resignation from the Company effective February 1, 2015. David Segal, Neighborhood's Chief Operating Officer was elected President and Chief Executive Officer on February 5, 2015.

Subsequent to December 31, 2014, Partners made the following capital contributions in order to maintain the 300% RBC level required by the 2012 Affiliation Agreement.

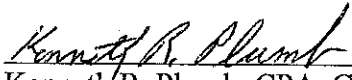
- \$5 million on February 25, 2015;
- \$30 million on May 14, 2015;
- \$22.1 million on August 14, 2015;
- \$40.3 million on November 12, 2015.

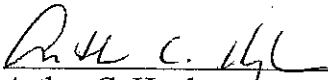
SUMMARY OF RECOMMENDATIONS

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 Plan during the examination.


Kenneth R. Plumb, CPA, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance


Arthur C. Hughes
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance