

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

REPORT OF EXAMINATION OF THE
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Watertown, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 4742

NAIC COMPANY CODE 95688

EMPLOYER ID NUMBER 04-2674079

TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

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

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DANIEL R. JUDSON
COMMISSIONER OF INSURANCE

May 25, 2016

The 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 175, Section 4 and Chapter 176G, Section 10 and other applicable statutes, an examination has been made of the financial condition and affairs of

TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

at its home office located at 705 Mount Auburn Street, Watertown, Massachusetts 02472-1508.
The following report thereon is respectfully submitted:

SCOPE OF EXAMINATION

Tufts Associated Health Maintenance Organization, Inc. ("TAHMO" or "Company") 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 3-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 175, Section 4 and 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 Ernst & Young ("E&Y"), 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 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 of 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. ("LEI") 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

TAHMO is a Massachusetts non-profit corporation established for the purpose of arranging for the delivery of comprehensive health care services, on a prepaid basis, to subscribing individuals and groups. As of December 31, 2014, TAHMO has three wholly owned subsidiaries, Tufts Health Public Plans, Inc. ("THPP"), Tufts Associated Health Plans, Inc. ("TAHP"), and Tufts Health Plan Foundation, Inc.

THPP, formerly Network Health, LLC ("NWH"), is a wholly owned subsidiary of TAHMO. On November 1, 2011, NWH, which was established on May 10, 2011, purchased the assets and assumed the liabilities of Network Health, Inc. and commenced business as a licensed insurance company. On July 1, 2014, NWH was converted to a Massachusetts for-profit corporation, and immediately thereafter, converted into a Massachusetts Chapter 180 non-profit corporation and continued business operations under the name THPP. THPP is contracted as a Medicaid Managed Care Organization by the Massachusetts Executive Office of Health and Human Services ("EOHHS") to provide health care coverage to the state's Medicaid population, and with EOHHS and the Centers for Medicare and Medicaid Services ("CMS") to provide health care coverage through a joint state and federal pilot program for adults with disabilities ages 21-64 that are eligible for both Medicare and Medicaid, as well as, the Commonwealth Health Insurance Connector Authority (the Massachusetts state run exchange) for the Qualified Health Plan population, and, during the years under examination, the Commonwealth Care and Medical Security Program populations.

TAHP is a for-profit corporation organized in 1987 to perform certain management, administrative and marketing services for its parent and subsidiaries. Payments for these services are made pursuant to terms established in a management agreement. TAHP has four wholly owned subsidiaries and a 51% ownership of Christie Student Health Plans LLC ("CSH"). The four wholly owned subsidiaries are Total Health Plan, Inc. ("THP"), Tufts Benefit Administrators, Inc. ("TBA"), TAHP Brokerage Corporation ("TBC"), and Tufts Insurance Company ("TICO"). THP is a for-profit Massachusetts corporation providing third-party administration services to group members in insured and self-insured point of service ("POS") agreements. TBA is a for-profit Massachusetts corporation providing third-party administration services to group members in insured and self-insured preferred provider arrangements. TBC is a for-profit corporation that holds a business entity producer license to sell non-affiliated insurance products. TICO, a Massachusetts domiciled (formerly New Hampshire domiciled) for-profit corporation, provides health insurance to individuals and groups in Massachusetts. CSH is a third party administrator of student health insurance that did not yet have any members in 2014.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

The standing committees of the Board include the following:

- Audit and Compliance Committee – Provides assistance to the Board in fulfilling their oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, and the annual independent audit of the Company's financial statements.
- Compensation Committee – Responsible for establishing and maintaining a competitive total compensation program in order to attract, retain, and motivate those executives critical to the successful management and oversight of TAHMO.
- Technology Committee – To oversee the technology of TAHMO and its subsidiaries and affiliates and periodically report to the Board regarding its assessment of the quality, performance and compatibility of such technology with the strategic direction of TAHMO and its subsidiaries and affiliates.
- Finance Committee – To advise the Board and management on financial matters, including financial management and investment policies for TAHMO, its subsidiaries and any entity of which TAHMO is the sole member.
- Governance Committee – To advise the Board on effective corporate governance policies and procedures and to nominate candidates to serve as elected Directors of TAHMO or any of its subsidiaries or affiliates.
- Sales and Marketing Committee – Provides oversight and advice to the sales and marketing functions of TAHMO.
- Care Management Committee – Responsible for review of the company's health care management and quality strategies, provide input and advice to management, and periodically report to the TAHMO Board regarding its assessment.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws provide guidance related to corporate governance, including the roles and responsibilities of the Board and officers of the Company.

With respect to the Board, the key terms of the bylaws include the following:

- The Board shall have the entire charge, control and management of the Corporation and its property and may exercise all or any of its powers.

Tufts Associated Health Maintenance Organization, Inc.

- The majority of Directors shall be “independent” and shall include not less than one and not more than two Directors who serve as management of the Corporation, one of whom shall be the Chief Executive Officer of the Corporation (“CEO”), serving ex officio. If there is more than one Management Director on the Board, the Management Directors will be limited to one vote and the Management Director entitled to vote will be determined by the CEO.
- Other than the CEO and any other Management Director, no person may serve as Director for more than four consecutive three year terms; provided that any consecutive term served by a Director who was a member of the board of directors of Tufts Associated Health Plans, Inc. (“TAHP”) immediately prior to the effectiveness of the merger of TAHMO Acquisition Sub, Inc. with and into TAHP shall be counted towards such Board term limit, and that any Director who is elected during his or her final term in office to be Chair or Vice Chair of the Board shall be permitted to serve as Director for one additional consecutive three year term. No person may be elected as Director who has reached the age of 75.
- An Annual Meeting shall be held for the purpose of electing the Corporation’s officers, Board officers, and Directors, and transacting such other business as may properly be brought before such meeting.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except as otherwise provided by the articles of organization, by law, or the bylaws. The Board shall consist of not fewer than seven Directors and not more than fourteen Directors. As of December 31, 2014, the Company's Board of Directors consisted of the following individuals:

<u>Name of Director*</u>	<u>Title</u>
Robert Spellman	Retired
James Roosevelt Jr., Esq.	President and CEO
Harris A. Berman, MD	Dean, Tufts University School of Medicine
Peter Drotch	Retired
Jackie Jenkins-Scott	President, Wheelock College
Thomas P. O'Neill III	CEO, O'Neill & Associates
Greg Tranter	Retired
Susan Windham-Bannister, Ph.D	Retired
James A. McNulty	Retired
Mary Anna Sullivan, MD	Chief Quality and Safety Officer, Lahey Clinic
Irina Simmons	SVP, Chief Risk Officer, EMC Corporation

* Subsequent to December 31, 2014, the following changes have occurred:

- James Roosevelt Jr., Esq. retired as CEO and Director of the Company and was replaced by Thomas Crosswell, effective January 1, 2016.
- Effective June 2, 2015, Harris A. Berman, MD no longer served on the Board and was replaced by Bertram Scott on August 17, 2015.

Tufts Associated Health Maintenance Organization, Inc.

Officers

According to the Company's bylaws, the officers shall be a chief executive officer, a president, a treasurer and a clerk, each of whom shall be elected by the Board; the clerk shall be a resident of the Commonwealth of Massachusetts unless the Corporation has appointed a resident agent to receive service of process.

Officers of the Company as of December 31, 2014 were as follows:

<u>Name of Officers*</u>	<u>Title</u>
James Roosevelt Jr., Esq.	Chief Executive Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Roland Price	Treasurer and Vice President
Lois Dehls Cornell, Esq.	Clerk, Chief Administrative Officer and General Counsel
Thomas Croswell	President and Chief Operating Officer
Patricia Blake	President, Senior Products
Tracey Carter	Senior Vice President and Chief Actuary
Christopher Gorton, M.D.	Senior Vice President
Paul Kasuba, M.D.	Senior Vice President and Chief Medical Officer
Marc Spooner	President, Commercial Products
Patricia Trebino	Senior Vice President of Operations and Chief Information Officer
Mary O'Toole Mahoney, Esq.	Assistant Clerk

* Subsequent to December 31, 2014, the following changes have occurred:

- Effective January 1, 2016, James Roosevelt Jr., Esq. retired as CEO of the Company and was replaced by Thomas Croswell.
- Effective January 1, 2016, Lois Dehls Cornell, Esq. also retired and was replaced by Mary O'Toole Mahoney as Clerk, Senior Vice President, General Counsel.

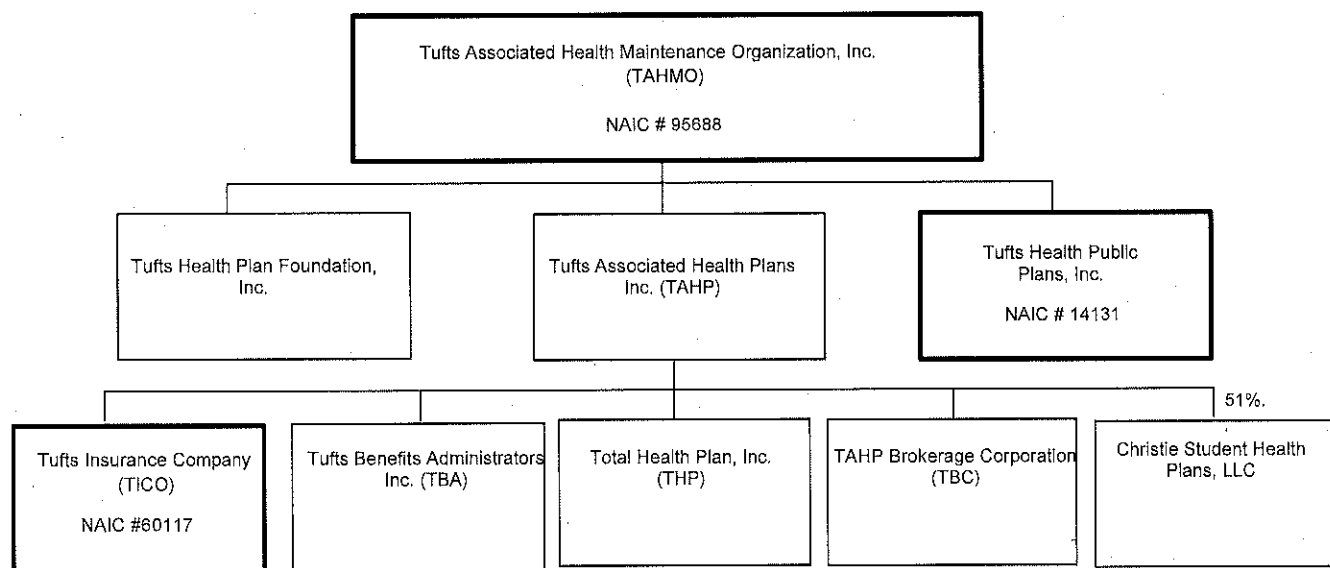
Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00. TAHMO is the "ultimate controlling person" of the holding company system.

Tufts Associated Health Maintenance Organization, Inc.

Organizational Chart

The following documents the Company's organizational chart as of December 31, 2014:



Transactions and Agreements with Subsidiaries and Affiliates

TAHP provides management services to TAHMO for many of TAHMO's administrative needs. The management fee is determined primarily as TAHP's cost plus a markup percentage, which is negotiated annually. The total management fees for 2013 and 2014 were \$142,631,000 and \$151,547,000, respectively. At December 31, 2013 and 2014, amounts payable to TAHP from TAHMO were \$5,183,000 and \$10,297,000, respectively. The terms of the agreement require that these amounts be paid within 30 days.

TAHMO and THP have an agreement whereby THP will administer point of service plans insured by TAHMO. Administrative fees paid to THP were \$490,000 and \$691,000 for 2013 and 2014, respectively. At December 31, 2013 and 2014, amounts payable to TAHMO from THP including premiums collected by THP were \$1,000 and \$47,000, respectively. The terms of the agreements require that these amounts be paid within 30 days.

TAHMO and TBA have an agreement whereby TBA will administer preferred provider option plans insured by TAHMO. Administrative fees paid to TBA were \$1,260,000 and \$1,058,000 for 2013 and 2014, respectively. At December 31, 2013 and 2014, amounts payable to TAHMO from TBA were \$6,208,000 and \$4,650,000, respectively. The terms of the agreements require that these amounts be paid within 30 days.

TAHMO and TICO, a wholly owned subsidiary of TAHP, have an agreement whereby TAHMO will administer Medicare supplement and prescription drug plans insured by TICO. Administrative fees paid to TAHMO were \$3,634,000 and \$5,331,000 for 2013 and 2014, respectively. At December 31, 2013 and 2014, amounts payable to TICO from TAHMO including premiums collected by TAHMO were \$779,000 and \$7,443,000, respectively. The terms of the agreement require that these amounts be paid within 30 days.

Capital Maintenance Guarantees

TAHMO has guarantee agreements with TICO and THPP whereby TAHMO has agreed to contribute capital to TICO and THPP if needed in order to maintain certain minimum capital levels.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in two states, with the largest numbers of insurance risks written in Massachusetts. The Company reported \$2.6 billion of 2014 direct premium written in Massachusetts.

REINSURANCE

The Company is not a party to any assumed or ceded reinsurance agreements and did not purchase stop-loss reinsurance.

FINANCIAL STATEMENTS

The following financial statements 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, Surplus and Other Funds as of December 31, 2014

Statement of Income for the Year Ended December 31, 2014

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

Tufts Associated Health Maintenance Organization, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2014

	Per Annual Statement
ASSETS	
Bonds	\$ 286,553,004
Stocks	433,810,346
Real Estate	108,079,698
Cash, cash equivalents and short-term investments	44,454,411
Other Invested Assets	148,908,919
Subtotals, cash and invested assets	<u>1,021,806,378</u>
Investment income due and accrued	1,802,230
Uncollected premiums and agents' balances	6,170,724
Amounts receivable relating to uninsured plans	24,058,146
Electronic data processing equipment and software	22,879,140
Receivables from parent, subsidiaries and affiliates	4,696,287
Healthcare and other amounts receivable	30,836,573
Total Assets	<u><u>\$ 1,112,249,478</u></u>
LIABILITIES	
Claims unpaid	\$ 225,461,292
Accrued medical incentive pool and bonus	29,642,997
Unpaid claims adjustment expenses	3,356,792
Health policy reserves	2,475,437
General expenses due or accrued	39,270,447
Premiums received in advance	23,652,279
Amounts due to parent, subsidiaries, and affiliates	17,775,783
ACA risk adjustment and reinsurance	5,588,190
Total Liabilities	<u>347,223,217</u>
Special surplus funds - ACA annual fee	18,975,103
Unassigned funds (surplus)	746,051,158
Surplus as regards policyholders	<u>765,026,261</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 1,112,249,478</u></u>

Tufts Associated Health Maintenance Organization, Inc.

Statement of Income
For the Year Ended December 31, 2014

	Per Annual Statement
Member months	<u>3,980,036</u>
Net Premium Income	\$ 2,641,826,413
Deductions:	
Hospital and medical:	
Hospital/medical benefits	1,935,151,631
Other professional services	38,711,237
Emergency room and out-of-area	24,248,081
Prescription drugs	272,223,652
Other hospital and medical	18,553,536
Incentive pool, withhold adjustments and bonus amount	<u>30,678,972</u>
Subtotal	2,319,567,109
Claims adjustment expenses	79,222,543
General administrative expenses	<u>214,771,380</u>
Total underwriting deductions	<u>2,613,561,032</u>
Net underwriting gain	<u>28,265,381</u>
Net investment income earned	11,993,587
Net realized capital gains	<u>24,816,183</u>
Net investment gain	<u>36,809,770</u>
Other income	<u>693,541</u>
Net income	<u>\$ 65,768,692</u>

Tufts Associated Health Maintenance Organization, 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>
Surplus as regards policyholders, December 31, prior year	\$ 715,442,353	\$ 661,640,375	\$ 532,760,340
Net income/(loss)	65,768,692	62,444,094	64,988,811
Change in net unrealized capital gains or (losses) less capital gains tax	(4,016,290)	17,438,447	34,728,103
Change in net deferred income tax			
Change in non-admitted assets	(12,168,494)	(26,080,563)	28,676,966
Aggregate write-ins for gains and losses in surplus			486,155
Change in surplus as regards policyholders for the year	<u>49,583,908</u>	<u>53,801,978</u>	<u>128,880,035</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$ 765,026,261</u></u>	<u><u>\$ 715,442,353</u></u>	<u><u>\$ 661,640,375</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 this 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 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 eliminated liabilities as the claims are ultimately settled.

LEI actuaries 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 LEI, indicate that TAHMO's UCL estimates are reasonable as of December 31, 2014. The Company's assumptions and methodologies used for the premium deficiency reserve are accurate and appropriate. The computations appear to be performed correctly, and the selected estimates appear reasonable. The Company maintains adequate PDR.

SUBSEQUENT EVENTS

On January 1, 2014, TAHMO 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, TAHMO did write health insurance subject to the ACA assessment and paid the 2014 assessment amounting to \$24,613,051 in 2015. TAHMO has estimated the 2015 assessment payable in 2016 to be \$23,469,647.

During 2015, TAHMO acquired an ownership interest of approximately 92% in Integra Health Partners, LLC, a durable medical equipment management services company. The cost was \$113,352,000, resulting in goodwill of \$94,222,000.

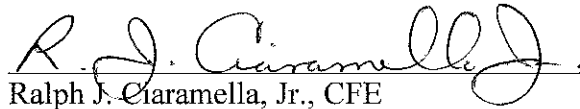
TAHMO amended its 2015 Annual Statement to reflect an adjustment to net income resulting from recording of income from Investment in Subsidiaries being out of compliance with statutory requirements. The correction of this error resulted in a \$33 million decrease in net income. TAHMO had recorded the net income on their investment in subsidiary as an adjustment to income. In compliance with the statutory guidance, it should have been recorded as an adjustment to market.

SUMMARY OF RECOMMENDATIONS

No significant recommendations were identified during the examination 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 Baker Tilly and LEI who participated in the examination is hereby acknowledged.

A handwritten signature in cursive script, reading "R. J. Caramella, Jr.", written over a horizontal line.

Ralph J. Caramella, Jr., CFE
Supervising Examiner
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance