

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

REPORT OF EXAMINATION OF THE
TUFTS HEALTH PUBLIC PLANS, INC.

Watertown, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 4742

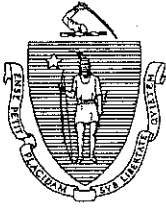
NAIC COMPANY CODE 14131

EMPLOYER ID NUMBER 80-0721489

TUFTS HEALTH PUBLIC PLANS, INC.

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COMMONWEALTH OF MASSACHUSETTS
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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 HEALTH PUBLIC PLANS, INC.

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

SCOPE OF EXAMINATION

This is the first examination of Tufts Health Public Plans, Inc. ("THPP" or "Company") conducted by the Massachusetts Division of Insurance ("Division") and covers the period from May 10, 2011 (the date its predecessor Network Health, LLC was established) 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") was 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

THPP, formerly Network Health, LLC ("NWH"), is a wholly owned subsidiary of Tufts Associated Health Maintenance Organization, Inc. ("TAHMO"), a non-profit health maintenance organization ("HMO"). On November 1, 2011, NWH, which was established on May 10, 2011, purchased the assets and assumed the liabilities of Network Health, Inc. from Cambridge Health Alliance and commenced business.

On July 1, 2014, Network Health, LLC was converted to a Massachusetts for-profit corporation, and immediately thereafter, converted into a Massachusetts Chapter 180 non-profit corporation. The new corporation, THPP operates essentially as the same business that was operated under Network Health, LLC. THPP's sole corporate member is TAHMO, a tax exempt organization under Internal Revenue Service Section 501(c) (4) of the Internal Revenue Code. THPP is also a 501(c) (4) tax exempt organization.

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.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") 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. As a subsidiary of TAHMO, the committees formed by TAHMO's Board also provide oversight to THPP.

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. The sole member of THPP shall be TAHMO, a Massachusetts nonprofit corporation.

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

- The property, business and affairs of the Corporation shall be managed by the Board.
- As stated in the terms of the Asset Purchase Agreement by and between Network Health, LLC and Network Health, Inc., until the Corporation pays the Final Earn-out Payment to Network Health, Inc. or its successors or assigns ("NHI"), NHI is entitled to designate an individual to serve as a director on the Board.
- The Directors shall be chosen at the Annual Meeting of the Member and each Director will hold the office until the next annual election of Directors and until his successor is chosen and qualified.
- A regular meeting of the Board shall be held without other notice than this bylaw, immediately after, and at the same place as, the Annual Meeting of the Member.

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 such as are conferred upon the Member by law, the articles of organization, or bylaws. The Board shall consist of not less than two and not more than five Directors and the Chief Executive Officer of TAHMO shall serve, ex officio, as a THPP Director. As of December 31, 2014, the Company's Board consisted of the following individuals:

<u>Name of Director*</u>	<u>Title</u>
James Roosevelt, Jr., Esq.	Chief Executive Officer, TAHMO
Thomas A. Croswell	President and Chief Operating Officer, TAHMO
Umesh Kurpad	Chief Financial Officer, TAHMO
Christopher Gorton, M.D.	President, THPP
Patrick Wardell	Network Health, Inc. Designee

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

- James Roosevelt Jr., Esq. retired as Chief Executive Officer of the Company and was replaced by Thomas Croswell effective January 1, 2016.
- Effective January 1, 2016, Mary O'Toole Mahoney, Esq. has been added to the Board.

Officers

According to the Company's bylaws, the officers shall be 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 and process.

Tufts Health Public Plans, Inc.

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

<u>Name of Officers*</u>	<u>Title</u>
Christopher Gorton M.D.	President
Umesh Kurpad	Chief Financial Officer
Roland Price	Treasurer
Lois Dehls Cornell, Esq.	Clerk
Mary O'Toole Mahoney, Esq.	Assistant Clerk

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

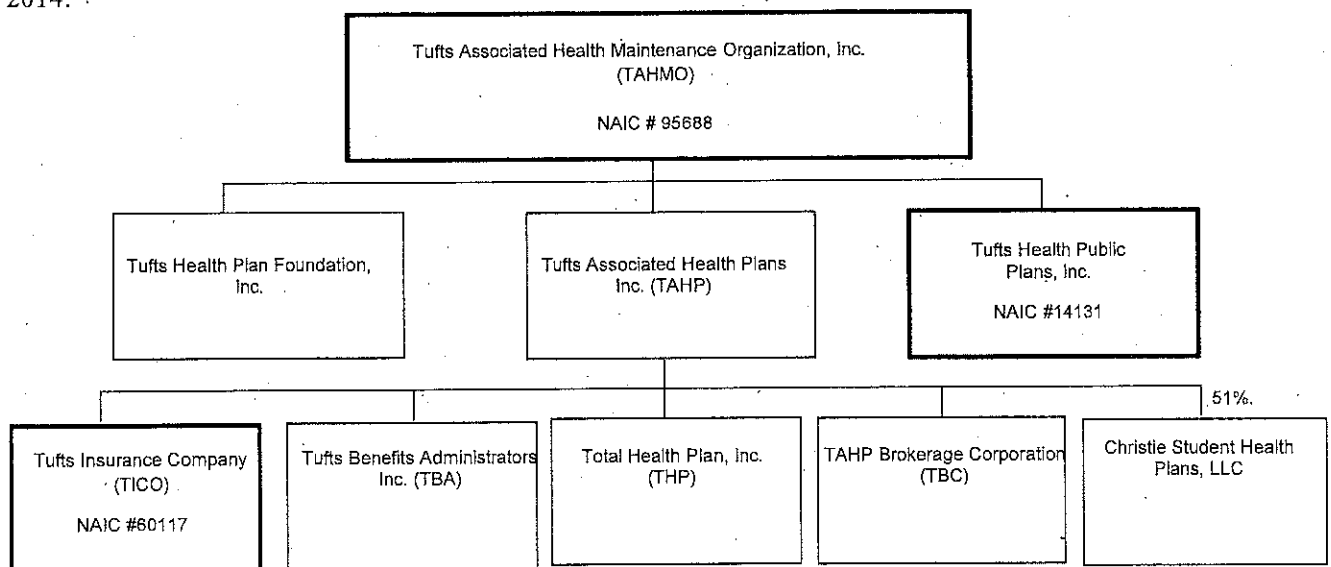
- Lois Dehls Cornell, Esq. retired and was replaced by Mary O'Toole Mahoney, Esq. effective January 1, 2016.
- James Roosevelt Jr., Esq. retired as Chief Executive Officer of the Company and was replaced by Thomas Crosswell effective January 1, 2016.
- Umesh Kurpad was elected Senior Vice President and Chief Financial Officer effective June 2, 2015.
- Susan A. Kee was elected Assistant Clerk effective March 10, 2016.

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.

Organizational Chart

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



Transactions and Agreements with Subsidiaries and Affiliates

THPP is wholly owned by TAHMO. In 2011, TAHMO contributed \$130,000,000 in cash to establish THPP with an additional \$40,000,000 contributed in December 2011. In 2013, TAHMO contributed an additional \$80 million of capital.

THPP has a management agreement with Tufts Associated Health Plans, Inc. ("TAHP") where THPP pays a fee for services provided by TAHP. Expenses incurred relating to the management agreement were \$15,497,055 in 2014. At December 31, 2014, the amount payable to TAHP from the Company was \$2,703,996.

TAHMO has a guarantee agreement with THPP whereby TAHMO has agreed to contribute capital to THPP if needed in order to maintain certain minimum capital levels.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in one state, with its insurance risks written in Massachusetts. The Company reported \$1.2 billion of 2014 direct premium written in Massachusetts.

REINSURANCE

THPP has stop-loss protection against unexpectedly high medical expenses incurred on a per-member per-year basis through its contract with the Commonwealth Health Insurance Connector Authority for members associated with this contract. Under the agreement, the Company will be reimbursed for certain portions of the hospital inpatient, outpatient and pharmacy claims in excess of a deductible.

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 Health Public Plans, Inc.

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

	Per Annual Statement
ASSETS	
Bonds	\$ 48,414,282
Stocks	210,337,449
Cash, cash equivalents and short-term investments	90,053,307
Subtotals, cash and invested assets	<u>348,805,038</u>
Investment income due and accrued	10,681
Uncollected premiums and agents' balances	3,313,138
Accrued retrospective premiums	140,099
Amounts recoverable from reinsurers	1,432,465
Amounts receivable relating to uninsured plans	1,072,809
Electronic data processing equipment and software	1,516,688
Receivables from parent, subsidiaries and affiliates	32,618
Health care and other amounts receivable	2,306,471
Total Assets	<u>\$ 358,630,007</u>
LIABILITIES	
Claims unpaid	\$ 116,315,483
Accrued medical incentive pool and bonus amounts	312,352
Unpaid claims adjustment expenses	2,593,268
Aggregate health policy reserves	23,317,276
General expenses due or accrued	9,354,029
Ceded reinsurance premiums payable	94,774
Amounts due to parent, subsidiaries and affiliates	2,703,996
Liability for amounts held under uninsured plans	106,027
Accrued earnout payable	20,000,000
ACA risk adjustment	3,883,000
Total Liabilities	<u>178,680,205</u>
Special surplus funds - ACA annual fee	9,135,906
Gross paid in and contributed surplus	249,000,000
Unassigned funds (surplus)	<u>(78,186,104)</u>
Total Capital and Surplus	<u>179,949,802</u>
Total Liabilities, Capital and Surplus	<u>\$ 358,630,007</u>

Tufts Health Public Plans, Inc.

Statement of Income
For the Year Ended December 31, 2014

	Per Annual Statement
Member months	2,885,546
Net premium income	\$ 1,245,731,991
Change in unearned premium reserves	78,000
	<u>1,245,809,991</u>
Deductions:	
Hospital and medical:	
Hospital/medical benefits	845,517,356
Other professional services	1,176,489
Emergency room and out-of-area	62,560,323
Prescription drugs	216,378,453
Incentive pool, withhold adjustments and bonus amount	192,578
Subtotal	<u>1,125,825,199</u>
Net reinsurance recoveries	1,828,169
Total Hospital and Medical	<u>1,123,997,030</u>
Claims adjustment expenses	28,432,475
General administrative expenses	60,193,861
Increase in reserves for life and accident and health contracts	(13,829,000)
Total net underwriting deductions	<u>1,198,794,366</u>
Net underwriting gain	<u>47,015,625</u>
Net investment income earned	7,984,376
Net realized capital (losses)	(1,923,891)
Net investment gain	6,060,485
Earnout expense	<u>(20,000,000)</u>
Net income	<u>\$ 33,076,110</u>

Tufts Health Public Plans, Inc.

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

	2014	2013	2012
Capital and surplus, December 31, prior year	\$ 136,782,434	\$ 113,651,150	\$ 108,783,676
Net income/(loss)	33,076,110	(66,055,142)	(5,073,287)
Change in net unrealized capital gains or (losses) less capital gains tax	4,533,722	3,847,389	(397,634)
Change in non-admitted assets	5,557,536	5,339,037	10,338,396
Capital Paid In	-	80,000,000	
Net change in capital and surplus	43,167,368	23,131,284	4,867,474
Surplus as regards policyholders, December 31, current year	<u>\$ 179,949,802</u>	<u>\$ 136,782,434</u>	<u>\$ 113,651,150</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

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 THPP's UCL estimates are reasonable as of December 31, 2014.

Additionally, an earn-out arrangement was executed as part of the purchase of the assets and liabilities of NHI in 2011, which stipulates that net income in any given year earned by THPP between \$10 million and \$30 million is paid back to Cambridge Health Alliance, the former parent of NHI. As of December 31, 2014, THPP recorded an accrued earn-out expense of \$20 million for the portion of the 2014 year net income to be paid to Cambridge Health Alliance.

At the time of the filing of the Company's statutory Annual Statement for 2014, the Company reported special surplus funds related to the ACA annual fee in the amount of \$9,135,906. Subsequently, and as disclosed in the audited financial statements, the Company determined that it was exempt from the ACA annual fee primarily given that more than 80% of its gross revenues are sourced from government agencies. Therefore, an allocation to special surplus funds was not required at December 31, 2014.

The Company's assumptions and methodologies used for the premium deficiency reserve ("PDR") are accurate and appropriate. The computations appear to be performed correctly, and the selected estimates appear reasonable. The Company maintains adequate PDR.

SUBSEQUENT EVENTS

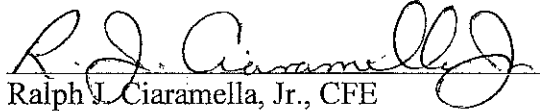
During 2015, THPP paid an extraordinary dividend of \$10 million to TAHMO.

SUMMARY OF RECOMMENDATIONS

No significant recommendations were identified during the examination that 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 dark ink, appearing to read "R. J. Ciaramella, Jr.", is written over a horizontal line.

Ralph J. Ciaramella, Jr., CFE

Supervising Examiner

Examiner-In-Charge

Commonwealth of Massachusetts

Division of Insurance