

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

REPORT OF EXAMINATION OF THE
TUFTS INSURANCE COMPANY

Watertown, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 4742

NAIC COMPANY CODE 60117

EMPLOYER ID NUMBER 04-3319729

TUFTS INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Saluation	1
Scope of Examination	2
Summary of Significant Findings of Fact	3
Company History	3
Management and Control	3
Board of Directors	4
Officers	4
Affiliated Companies	5
Organizational Chart	5
Transactions and Agreements with Subsidiaries and Affiliates	5
Territory and Plan of Operation	6
Reinsurance	6
Financial Statements	7
Statement of Assets, Liabilities, Surplus and Other Funds	8
Statement of Income	9
Reconciliation of Capital and Surplus	10
Analysis of Changes in Financial Statements Resulting from the Examination	11
Comments on Financial Statement Items	11
Subsequent Events	11
Summary of Recommendations	11
Signature Page	12



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 INSURANCE COMPANY

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

SCOPE OF EXAMINATION

Tufts Insurance Company ("TICO" 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

TICO is a for profit Massachusetts insurance company and was originally licensed in 1996 in New Hampshire as a for-profit, accident & health carrier as a subsidiary of Tufts Health Plan of New England, Inc. During 2003, it was re-domesticated to Massachusetts. On September 1, 2008, under a restructure agreement, TICO became a subsidiary of Tufts Associated Health Plans, Inc. ("TAHP"), a for-profit corporation organized to perform certain management, administrative, and marketing services for its affiliates and subsidiaries. As of the restructure date, TAHP became a wholly owned subsidiary of TAHMO, a not-for-profit corporation established for the purpose of arranging for the delivery of health care services, on a prepaid basis, to subscribing individuals and groups.

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 TICO.

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 Shareholders, Board and Officers of the Company.

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

- An Annual Meeting of the shareholders is held for the purpose of electing Directors and for such other purposes as shall be specified in the notice for the meeting, and only business within such purposes may be conducted at the meeting.
- The property, business and affairs of the Corporation are managed by the Board. However, there are certain actions that must be approved by the Shareholders, such as, but not limited to the issuance of any capital stock; execution of a contract or engagement in any transaction providing for the sale, lease, or exchange or other disposition of all or substantially all of Company's property; filing or acquiescence in the filing of any voluntary or involuntary bankruptcy, adoption of a plan of or authorization of a petition for liquidation and/or dissolution of the Company, or merger proceedings; or amendment, alteration or repeal to the articles of incorporation.

Tufts Insurance Company

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 shareholders by law, the articles of organization, or bylaws. The Board shall consist of not fewer than five and no more than fifteen Directors. As of December 31, 2014, the Company's Board consisted of the following individuals:

<u>Name of Director*</u>	<u>Title</u>
Robert Spellman	Chairman of the Board
James Roosevelt, Jr., Esq.	Chief Executive Officer
Thomas A. Croswell	President and Chief Operating Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Lois Dehls Cornell, Esq.	Clerk, Chief Administrative Officer and General Counsel

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

- James Roosevelt Jr., Esq. retired as Chief Executive Officer ("CEO") of the Company and was replaced by Thomas Croswell effective January 1, 2016.
- Lois Dehls Cornell, Esq. retired and was replaced by Mary O'Toole Mahoney, Esq. as Senior Vice President, General Counsel effective January 1, 2016.
- Effective January 1, 2016 Patricia Trebino has been added to the Board.

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 Company 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
Thomas A. Croswell	President and Chief Operating Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Roland Price	Vice President and Treasurer
Lois Dehls Cornell, Esq.	Clerk, Chief Administrative Officer and General Counsel
Mary O'Toole Mahoney, Esq.	Assistant Clerk

Tufts Insurance Company

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

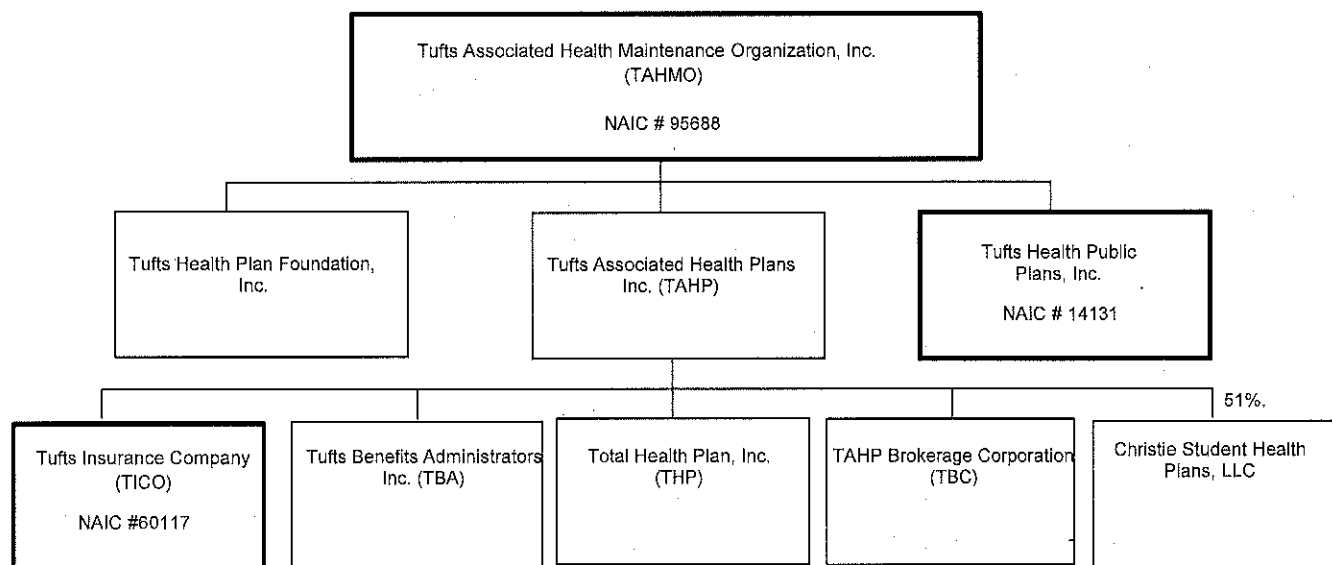
- James Roosevelt Jr., Esq. retired as CEO of the Company and was replaced by Thomas Croswell effective January 1, 2016.
- Lois Dehls Cornell, Esq. retired and was replaced by Mary O'Toole Mahoney as Clerk, Senior Vice President, General Counsel effective January 1, 2016.
- Mary O'Toole Mahoney was replaced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

TICO and Tufts Benefits Administrators, Inc. ("TBA") have an agreement whereby TBA will administer preferred provider option plans insured by TICO. Administrative fees paid to TBA were \$15,056,840 and \$13,835,779 in 2014 and 2013, respectively. TICO and TAHMO have a similar agreement whereby TAHMO will administer senior products plans insured by TICO. Administrative fees paid to TAHMO were \$5,331,171 and \$3,633,819 in 2014 and 2013, respectively. At December 31, 2014, the net amount due to TBA from TICO was \$2,199,838. The net amount due from TAHMO to TICO was \$7,442,785 in 2014.

Tufts Insurance Company

During 2014 TAHP contributed \$20 million of capital to TICO. TAHMO has a guarantee agreement with TICO whereby TAHMO has agreed to contribute capital to TICO if needed in order to maintain certain minimum capital levels.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in seventeen states, with the largest numbers of insurance risks written in Massachusetts and Rhode Island. The Company reported \$248 million 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.

Tufts Insurance Company

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 Insurance Company

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

	Per Annual Statement
ASSETS	
Bonds	\$ 26,624,018
Stocks	16,150,244
Cash, cash equivalents and short-term investments	38,686,767
Subtotals, cash and invested assets	<u>81,461,029</u>
Investment income due and accrued	5,800
Uncollected premiums and agents' balances	1,716,870
Amounts receivable relating to uninsured plans	4,252,997
Receivables from parent, subsidiaries and affiliates	7,505,524
Healthcare and other amounts receivable	2,605,553
Total Assets	<u>\$ 97,547,773</u>
LIABILITIES	
Claims unpaid	\$26,396,154
Aggregate health policy reserves	12,259,184
Premiums received in advance	2,202,783
General expenses due or accrued	3,816,474
Amounts due to parent, subsidiaries and affiliates	2,199,838
ACA risk adjustment and reinsurance	205,257
Total Liabilities	<u>47,079,690</u>
Special surplus funds - ACA annual fee	3,102,556
Common capital stock	3,000,000
Gross paid in and contributed surplus	112,500,000
Unassigned funds (surplus)	<u>(68,134,473)</u>
Surplus as regards policyholders	<u>50,468,083</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 97,547,773</u>

Tufts Insurance Company

Statement of Income For the Year Ended December 31, 2014

	Per Annual Statement
Member months	<u>893,017</u>
Net premium income	\$ 248,204,491
Change in unearned premiums reserves	<u>-</u>
	248,204,491
Deductions:	
Hospital and medical:	
Hospital/medical benefits	174,886,988
Prescription drugs	46,925,201
Other medical	2,990,002
Incentive pool, withhold adjustments and bonus amount	<u>93,819</u>
Subtotal	224,896,010
Net reinsurance recoveries	<u>-</u>
Total Hospital and Medical	<u>224,896,010</u>
Claims adjustment expenses	10,903,738
General administrative expenses	26,711,878
Increase in reserves for life and accident and health contracts	<u>6,178,000</u>
Total net underwriting deductions	<u>268,689,626</u>
Net underwriting (loss)	<u>(20,485,135)</u>
Net investment income earned	845,626
Net realized capital (losses)	<u>271,702</u>
Net investment gain	<u>1,117,328</u>
Federal and foreign income taxes incurred	<u>1,562,565</u>
Net (loss)	<u>\$ (17,805,242)</u>

Tufts Insurance Company

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>
Capital and surplus, December 31, prior year	\$ 48,644,907	\$ 48,419,631	\$ 47,398,180
Net income/(loss)	(17,805,242)	1,170,418	2,012,302
Change in net unrealized capital gains or (losses) less capital gains tax	(168,004)	(651,831)	1,355,563
Change in net deferred income taxes	-	-	-
Change in non-admitted assets	(203,578)	(293,311)	(8,132)
Surplus Paid In	20,000,000	-	-
Aggregate write-ins for gains and losses in surplus	-	-	(2,338,282)
Net change in surplus as regards policyholders for the year	<u>1,823,176</u>	<u>225,276</u>	<u>1,021,451</u>
Capital and surplus, December 31, end of reporting year	<u>\$ 50,468,083</u>	<u>\$ 48,644,907</u>	<u>\$ 48,419,631</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

Unpaid Claims

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

The company's premium deficiency reserve calculation was reviewed and found to be reasonable. The calculation indicated that a premium deficiency reserve of \$12,045,000 was required as of December 31, 2014. Based on LEI's review, the premium deficiency reserve estimate appears reasonable as of December 31, 2014.

SUBSEQUENT EVENTS

On January 1, 2014, TICO 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, TICO did write health insurance subject to the ACA assessment and paid the 2014 assessment amounting to \$3,797,426 in 2015. TICO has estimated the 2015 assessment payable in 2016 to be \$4,341,867.

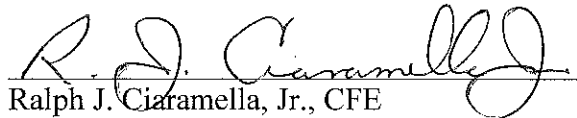
SUMMARY OF RECOMMENDATIONS

No significant recommendations were identified during the examination that that should be noted in this report.

Tufts Insurance Company

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 black ink, reading "R. J. Ciaramella, Jr.", written over a horizontal line.

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