



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

***REPORT OF EXAMINATION OF THE***  
**CeltiCare Health Plan of Massachusetts, Inc.**

**Waltham, Massachusetts**

**As of December 31, 2015**

**NAIC GROUP CODE 01295**

**NAIC COMPANY CODE 13632**

**EMPLOYER ID NUMBER 26-4818440**

## **CeltiCare Health Plan of Massachusetts, Inc.**

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**COMMONWEALTH OF MASSACHUSETTS**  
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**DIVISION OF INSURANCE**

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**GARY D. ANDERSON**  
ACTING COMMISSIONER OF INSURANCE

May 31, 2017

The Honorable Gary Anderson  
Acting 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 and other applicable statutes, an examination has been made of the financial condition and affairs of

**CeltiCare Health Plan of Massachusetts, Inc.**

at its home office located at 200 West Street, Suite 250, Waltham, MA 02451. The following report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

CeltiCare Health Plan of Massachusetts, Inc. ("CeltiCare" or "Company") 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 period from January 1, 2013 through December 31, 2015, 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 Law. 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 ("KPMG"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2013 through 2015. 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. ("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 that require a formal examination report comment to the Company.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in the Commonwealth of Massachusetts on May 6, 2009 as a Health Maintenance Organization and commenced business as of this same date by providing state sponsored health insurance, through the Commonwealth Care program, to the uninsured membership who do not qualify for Medicaid in Massachusetts. Operations under the Commonwealth Care program discontinued on January 31, 2015 and this membership group was transitioned to the Massachusetts Marketplace program, the Connector. In January 2014, the Company began operating under a contract with the Massachusetts Executive Office of Health and Human Services to participate in the Medicaid expansion MassHealth CarePlus program ("CarePlus"). The Company offered coverage under this program in all 14 counties of the State of Massachusetts. Finally, effective January 2014, the Company began writing a small amount of commercial insurance through the Connector. Total comprehensive coverage makes up 1.3% of the Company's total December 31, 2015 direct written premium.

The Company's ultimate parent, Centene Corporation ("Centene"), is a publicly traded corporation domiciled in the State of Delaware. Centene is a multi-state healthcare enterprise that provides programs and services to government sponsored healthcare programs, with a focus on underinsured and uninsured individuals. Centene operates two business segments, Managed Care and Specialty Services. The Managed Care segment includes the government subsidized programs (i.e. Medicaid) and coverage through the Health Insurance Marketplace established in 2014 through the Patient Protection and Affordable Care Act ("PPACA"). The Specialty Services segment consists of entities offering diversified healthcare services and products to state programs, correctional facilities, healthcare organizations, employer groups and other commercial organizations.

Centene's business operations takes a local approach to member and provider services with other operational functions (i.e. Internal Audit, Financial Reporting, ERM, etc.) performed at the corporate level for the benefit of the entire group.

## **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 reviewed and they indicate 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 Board of Directors and its Committees shall discharge their duties under the standard of the code of conduct which requires actions to be: (1) in good faith, (2) with the care that a person in a like position would reasonably believe appropriate under similar circumstances, and (3) in a manner the Director reasonably believes to be in the best interest of the Corporation.

The Board has the authority to create Committees of the Board and delegate certain responsibilities of the Board to these Committees. For the examination period, the Board of Directors has designated the Audit Committee of its ultimate parent, Centene, to serve in the same capacity on behalf of CeltiCare. The Audit Committee is governed by an Audit Committee Charter dictating the roles and responsibilities of the Committee, as well as the composition of the Committee. The purpose of the Audit Committee is to assist in the oversight of matters including: integrity of the financial statements, compliance with legal and regulatory requirements, qualifications and independence of the independent auditors, and performance of the Company's internal audit function.

#### 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:

- "All corporate power shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of its Board of Directors."
- "The terms of all Directors shall expire at the next annual shareholders' meeting following their election. A decrease in the number of the Directors does not shorten an incumbent Director's term. The term of a Director elected to fill a vacancy shall expire at the next shareholders meeting at which Directors are elected. Despite the expiration of a Director's term, he or she shall continue to serve until his or her successor is elected and qualified or until there is a decrease in the number of Directors."
- "Regular meetings of the Board of Directors may be called by the President, by the Secretary, by any two Directors, or by one Director in the event that there is only one Director."
- "A quorum of the Board of Directors consists of a majority of the Directors then in office, provided always that any number of Directors (whether one or more and whether or not constituting a quorum) constituting a majority of Directors present at any meeting or at any adjourned meeting may make any reasonable adjournment thereof."

#### Board of Directors

According to the bylaws, "the Board of Directors shall consist of one or more individuals, with the number fixed by the shareholders at the annual meeting or by the Board of Directors, but, unless otherwise provided in the Articles of Organization, if the Corporation has more than one shareholder, the number of Directors shall not be less than three, except that whenever there shall be only two shareholders, the number of Directors shall not be less than two. Except as otherwise provided in these Bylaws or the Articles of Organization, the Directors shall be elected by the shareholders at the annual meeting." As of December 31, 2015, the Company's Board of Directors consisted of the following individuals:

CeltiCare Health Plan of Massachusetts, Inc.

<u>Name of Director</u>	<u>Title</u>
Juan Gonzalez	President & CEO, CeltiCare Health Plan of Massachusetts, Inc.
Steven White	SVP, Health Plans, Centene
Keith Williamson	EVP, Secretary & General Counsel G&A – Legal, Centene
Mark Eggert	SVP, Contractual & Regulatory Affairs G&A – Legal, Centene

Note subsequent the examination date, the following changes to the Board of Directors occurred following the departures of certain Board members:

- Juan Gonzalez was replaced by Jennifer Weigand following his departure in December 2016.
- Steven White was not replaced as a member of the Board of Directors following his departure in October 2016.
- Effective October 2016, the Company elected a group of independent Board Members to serve in addition to the Plan President & CEO.

Officers

According to the Company's bylaws, the officers shall consist of a President, Treasurer, Secretary, and any such officers as may be appointed by the Board of Directors from time to time in accordance with these bylaws.

Officers of the Company as of December 31, 2015 were as follows:

<u>Name of Officers</u>	<u>Title</u>
Juan Gonzalez	President & CEO
Steven White	Vice President
Jeff Schwaneke	Treasurer
Tricia Dinkelman	Vice President, Tax
William Scheffel	Vice President
Keith Williamson	Secretary

Note subsequent the examination date, the following changes in Senior Management occurred:

- Juan Gonzalez was replaced by Jennifer Weigand, in addition to her responsibilities as COO, following his departure in December 2016.
- Effective February 2016, William Scheffel retired from Centene and was not replaced as an Officer of the Company.
- As previously mentioned, Steven White departed the Company effective October 2016 and was not replaced as an Officer of the Company.

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 176G, Section 28 and 211 CMR 7.00. Centene Corporation is the ultimate controlling person of the holding system.

Organizational Chart

The following documents the Company's organizational chart as of December 31, 2015:

Centene Corporation (DE)

    Celtic Group, Inc. (DE)

        Celtic Insurance Company (IL)

        Novasys Health Inc. (DE)

        CeltiCare Health Plan Holdings LLC (DE)

            CeltiCare Health Plan of Massachusetts, Inc. (MA)

Transactions and Agreements with Subsidiaries and Affiliates

The following is a summary of each of the Intercompany Agreements between the entities within the holding company structure:

*Capital Maintenance Agreement:* Effective May 4, 2009, CeltiCare entered an agreement with Centene in which Centene agrees to provide CeltiCare with sufficient funds to maintain capital at \$5 million or 250% RBC, whichever is greater.

*Provider Agreements:* The Company has a number of affiliated provider agreements in effect as of December 31, 2015. The following is a summary of the affiliated contracts for the provision of medical services for the Company's covered membership:

- NurseWise, LP – Effective July 1, 2009, the Company and NurseWise entered into a Disease Management Program Services Agreement, whereby NurseWise is contracted to provide management and triage services to the Company's covered members. Effective January 1, 2014, the Company and NurseWise executed an additional agreement extending the services to include all covered members of the Company under the Commercial line of business and CarePlus product. During the year ended December 31, 2015 the Company incurred over \$389,000 in fees for services under this agreement.
- US Script Inc. – Effective July 1, 2009, the Company and US Script entered into a service agreement for the provision of pharmacy benefits to covered members. Effective January 1, 2014, the Company and US Script executed an additional agreement extending these



services to include all covered members of the Company under the Commercial line of business and CarePlus product. During the year ended December 31, 2015 the Company incurred over \$26.9 million in fees for services under this agreement.

- Nurtur Health, Inc. – Effective July 1, 2009, the Company and Nurtur entered into a Disease Management Program Services Agreement, whereby Nurtur is contracted to provide certain disease management services to the Company’s policyholders. Effective January 1, 2014, the Company and Nurtur executed an additional agreement extending these services to include all covered members of the Company under the Commercial line of business and CarePlus product. During the year ended December 31, 2015 the Company incurred over \$620,000 in fees for services provided under this agreement.
- Cenpatico Behavioral Health – Effective July 1, 2009, the Company and Cenpatico entered into the Behavioral Health Services Agreement, whereby Cenpatico is contracted to provide behavioral health services to the Company’s covered members. Effective January 1, 2014, the Company and Cenpatico executed an additional agreement extending these services to include all covered members of the Company under the Commercial line of business and CarePlus product. During the year ended December 31, 2015 the Company incurred over \$27.5 million in fees for services provided under this agreement.
- Opticare Vision Company, Inc. – Effective July 1, 2009, the Company and Opticare entered into a Vision Services Agreement, whereby Opticare is contracted to provide vision benefits management services to the covered members of the Company. Effective January 1, 2014, the Company and Opticare executed an additional agreement extending these services to include all covered members of the Company under the Commercial line of business and CarePlus product. During the year ended December 31, 2015 the Company incurred over \$979,000 in fees for services provided under this agreement.

*Management Agreement:* The Company has had a management service contract in place dating back to March 10, 2009. The current service provider, Centene Management Company, LLC, has been providing medical and administrative services to the Company as of January 1, 2014. In exchange for these services, the Company pays Centene Management Company, LLC a fee of 12% of gross Medicaid revenues and 15% of gross Commercial revenues. During the year ended December 31, 2015 the Company incurred over \$25.9 million in fees for services under the agreement, which include, among other functions:

- Program Planning and Development,
- Management Information Systems,
- Financial Systems and Services,
- Claims Administration, and
- Utilization Review

*Consolidated Tax Agreement:* CeltiCare is a party to a Consolidated Tax Agreement, effective July 1, 2009, in which the income from CeltiCare is consolidated in the federal income tax return of Centene Corporation. Tax amounts are allocated to the Company based upon separate return calculations and are settled within ninety days of the date the consolidated tax return is filed.

The following is a summary of each of the Intercompany Agreements between the entities within the holding company structure:

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

The Company is licensed in Massachusetts and operates in all fourteen counties of the Commonwealth of Massachusetts. The Company reported \$222,764,205 of 2015 direct premium written in Massachusetts, the Company's total direct premiums written during the year.

### **REINSURANCE**

#### **Assumed Reinsurance**

The Company is not a party to any agreements for assumed reinsurance.

#### **Ceded Reinsurance**

The Company is a party to two excess risk reinsurance agreements executed with Partner Re America Insurance Company ("Partner Re") as a named covered subsidiary. The agreements executed with Partner Re provide the Company with reinsurance coverage related to its Medicaid and Commercial membership. The Company maintained similar coverage for all years under examination, though the coverage for the calendar year 2013 was obtained from ACE American Insurance Company. For the agreement period January 1, 2015 through December 31, 2015, Partner Re agrees to pay covered expenses incurred over the period for the Medicaid membership, which are reported and paid by September 1, 2016 and submitted by December 31, 2016, and for the Commercial membership which are reported, paid and submitted by January 1, 2017. The agreement establishes a \$200,000 and \$250,000 per Member per period deductible for the Medicaid and Commercial membership, respectively. Covered expenses include: Hospital Inpatient Services – Acute Care Services, Hospital Inpatient Services – Sub-Acute Care Services, Sub-Acute Care Facility Services / Extended Care Facility Services / Skilled Nursing Facility Services / Rehabilitations Facility Services / Hospice / Home Health Care Services, and Long Term Acute Care Hospital Services, provided to both membership groups, and Durable Medical Equipment expenses and Pharmaceutical Drugs delivered for the Commercial membership specifically. A reinsurance limit of \$2.5 million per Member per period exists, for each membership group, and the premium paid by CeltiCare in exchange for the coverage is \$4.54 and \$5.77 PMPM ("Per Member Per Month") for the Medicaid and Commercial membership, respectively, with a \$1 million and \$4.5 million aggregate minimum annual premium for all covered Centene subsidiaries under the agreements.

The Company also participates in the reinsurance pool administered by the US Department of Health & Human Services under the PPACA. The business covered under this policy is the Company's commercial membership obtained through participation in the Massachusetts Health Insurance Marketplace, the Connector. The Company's total net written premium for the commercial line of business, subject to PPACA reinsurance participation, was \$2,030,074 of which the Company ceded \$102,917 as of December 31, 2015. This transitional reinsurance

CeltiCare Health Plan of Massachusetts, Inc.

program is a temporary risk sharing provision of the PPACA, effective for policy years 2014 through 2016.

**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, 2015. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015

Statement of Income for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2015

CeltiCare Health Plan of Massachusetts, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2015

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 56,987,568
Cash, cash equivalents and short-term investments	28,302,973
Subtotals, cash and invested assets	<u>85,290,541</u>
Investment income due and accrued	327,348
Uncollected premiums and agents' balances	622,963
Accrued retrospective premiums	3,552
Amounts recoverable from reinsurers	63,607
Other amounts receivable under reinsurance contracts	24,273
Net deferred tax assets	192,774
Receivables from parent, subsidiaries and affiliates	2,047,417
Health care receivables	10,994,574
Total Assets	<u>\$ 99,567,049</u>
<b>LIABILITIES</b>	
Claims unpaid	\$ 14,642,677
Unpaid claims adjustment expenses	217,753
Health policy reserves	20,910,443
General expenses due or accrued	69,783
Premiums received in advance	81,415
Current federal and foreign income tax payable	1,325,357
Ceded reinsurance premiums payable	33,956
Payable for securities	120,646
State income tax payable	591,241
Aggregate write-ins for other liabilities	5,873,373
Total Liabilities	<u>\$ 43,866,644</u>
Health insurer fee estimate	3,875,652
Gross paid in and contributed surplus	17,150,000
Unassigned funds (surplus)	34,674,753
Total Capital & Surplus	<u>\$ 55,700,405</u>
Total Liabilities, Capital & Surplus and Other Funds	<u>\$ 99,567,049</u>

CeltiCare Health Plan of Massachusetts, Inc.

Statement of Income  
For the Year Ended December 31, 2015

	Per Annual Statement
Member months	<u>580,640</u>
Net Premium Income	\$ 220,093,373
Deductions:	
Hospital and medical:	
Hospital/medical benefits	75,718,916
Other professional services	31,049,323
Emergency room and out-of-area	17,097,323
Prescription drugs	26,521,728
Incentive pool, withhold adjustments and bonus amount	<u>(74,200)</u>
Subtotal	150,313,090
Net reinsurance recoveries	(46,103)
Claims adjustment expenses	6,571,552
General administrative expenses	<u>21,295,245</u>
Total underwriting deductions	<u>178,133,784</u>
Net underwriting gain	<u>41,959,589</u>
Net investment income earned	691,660
Net realized capital gains	<u>3,127</u>
Net investment gain	<u>694,787</u>
Net loss from agents' or premium balances charged off	<u>(3,918)</u>
Net income before income taxes	\$ 42,650,458
Federal and foreign income taxes incurred	<u>16,051,284</u>
Net income	<u>\$ 26,599,174</u>

# CeltiCare Health Plan of Massachusetts, Inc.

## Reconciliation of Capital and Surplus For Each Year in the Three-Year Period Ended December 31, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital and Surplus			
December 31, prior year	\$ 29,418,181	\$ 11,639,770	\$ 13,210,077
Net income/(loss)	26,599,174	14,595,504	(1,503,902)
Change in net deferred income tax	(3,716)	196,490	(92,602)
Change in non-admitted assets	(313,234)	(13,583)	26,197
Paid in	-	3,000,000	
Change in capital and surplus for the year	<u>26,282,224</u>	<u>17,778,411</u>	<u>(1,570,307)</u>
Capital and surplus, December 31, current year	<u>\$ 55,700,405</u>	<u>\$ 29,418,181</u>	<u>\$ 11,639,770</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**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

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. Actuarial Consultants performed independent testing which showed that the Company's liabilities were reasonable, appropriate, and adequate at the time the liabilities were established.

LEI actuaries prepared independent estimates of Unpaid Claim Liabilities ("UCL") for December 31, 2015 through a hindsight analysis as of December 31, 2016. For December 31, 2015, 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 the Company's UCL estimates were sufficient as of December 31, 2015.

The Company did not hold a Premium Deficiency Reserve ("PDR") as of December 31, 2015. Based on a review of the best estimate projections at the time, LEI determined this was appropriate, and a PDR was not required for any of the Company's lines of business as of December 31, 2015.

As of December 31, 2015, the Company held a risk adjustment payable of \$3,862,573. The final settlement for the Affordable Care Act ("ACA") risk adjustment provision was a payable of \$2,292,499. Therefore, for 2015, the Company's aggregate risk adjustment provision had a favorable result of approximately \$1.57 million.

As of December 31, 2015, the Company held a healthcare receivable of \$11,407,538 which was related primarily to the Cenpatco Behavioral Health contracted risk corridor provision. The final settlement for the healthcare receivable was \$11,490,940. Therefore, for 2015, the Company's aggregate risk adjustment provision was adequate.



### **SUBSEQUENT EVENTS**

During the course of fieldwork and subsequent the examination date, December 31, 2015, the following significant subsequent events were noted and discussed.

On January 1, 2015, CeltiCare became subject to an annual fee under Section 9010 of the 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 2015, CeltiCare did write health insurance subject to the ACA assessment and paid an assessment amounting to \$3,434,979 in 2015. Based on 2015 premium written CeltiCare has estimated the assessment payable in 2016 to be \$3,875,652.

Effective December 30, 2016, the Company's President & CEO, Juan Gonzalez, resigned from the Company and was replaced, on an interim basis, by the current Chief Operating Officer, Jennifer Weigand. As of this report, the Company is performing an executive search to fill this role on a permanent basis.

The Company paid dividends of \$15 million for the year ended December 31, 2016, compared to the year ended December 31, 2015 in which no dividends were paid. It was noted that this dividend was considered ordinary and thus did not require the approval of the Massachusetts Division of Insurance.

### **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 black ink, appearing to read 'Robert Dynan', is written over a horizontal line.

Robert Dynan, CFE  
Supervising Examiner  
Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance