



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

REPORT OF EXAMINATION OF THE
BOSTON MEDICAL CENTER HEALTH PLAN, INC.

Charlestown, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 0000

NAIC COMPANY CODE 13203

EMPLOYER ID NUMBER 04-3373331

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

April 17, 2019

The Honorable Gary D. Anderson
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

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

at its home office located at 529 Main Street, Suite 500, Charlestown, Massachusetts 02129. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Boston Medical Center Health Plan, Inc. ("the Company" or "BMCHP") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 through December 31, 2017, 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 current and 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 PricewaterhouseCoopers, LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2015 through 2017. 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 Risk & Regulatory Consulting, LLC ("RRC") 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 information systems and information technology general controls ("ITGC's") and review of the actuarially determined unpaid claims and unpaid claims adjustment expense reserves, as well as other significant actuarial estimates as of December 31, 2017.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

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. There were no significant recommendations noted by the examination team in the previous report of examination.

COMPANY HISTORY

General

The Company was established by Boston Medical Center (“BMC”) in 1997 as a 501(c)(3) not for profit organization. In July 1997, Boston Medical Center officially received approval from the Commonwealth of Massachusetts Division of Medical Assistance (“DMA”) to establish a prepaid health plan. The plan, known as the Boston Medical Center Health Plan is specifically designed to allow BMC to continue to serve low income patients under the changes brought about under the Commonwealth of Massachusetts (the “Commonwealth”) 1115 Medicaid waiver. BMCHP operates as a managed care organization that includes a delivery network, which includes BMC, physician faculty practice plans affiliated with BMC, and community health centers also affiliated with BMC. BMCHP differs from other Medicaid (“MassHealth”) managed care plans in the Commonwealth as it is one of only two provider-sponsored MassHealth plans approved by the Commonwealth.

BMC sought this approval from DMA as a means to continue to fulfill and expand its mission to provide healthcare to low income individuals. It was also a strategy to retain this large patient base and better serve them through managed care. Under BMCHP, all approved physician services, inpatient admissions, outpatient visits, prescriptions and over-the-counter medicines are covered for individuals who qualify for MassHealth benefits.

On April 5, 2006, the Massachusetts legislature passed legislation dramatically expanding coverage to the uninsured in Massachusetts. The legislation combined an individual mandate for coverage for those able to afford it with assessments on certain employers not providing coverage. The bill required individuals to obtain coverage by July 1, 2007 and created a sliding scale subsidy to enable lower-income individuals to purchase protection. In connection with this legislation, the Commonwealth Health Insurance Connector was established to regulate these new insurance programs. BMCHP was one of four managed care organizations that had the exclusive right to offer the Commonwealth Care Health Insurance Program until July 2009, at which time other health insurers were allowed into the market.

On March 16, 2012, BMCHP also became licensed as a Health Maintenance Organization (“HMO”) insurer with the New Hampshire Insurance Department. In April of 2012, the New Hampshire Department of Health and Human Services (“DHHS”) selected BMCHP as one of three insurers to serve individuals qualifying for the New Hampshire Medicaid program. The DHHS Managed Care Program has been approved by the federal Centers for Medicare and Medicaid Services. Members’ coverage became effective during December 2013. BMCHP operates under the name Well Sense Health Plan (“Well Sense”) in the State of New Hampshire.

Boston Medical Center Health Plan, Inc.

On September 12, 2013, the Connector Board granted final approval for BMCHP to offer Qualified Health Plans (“QHP”), including ConnectorCare Plans, in each of seven rating regions. These plans are a key component of the Affordable Care Act (“ACA”), and members’ coverage became effective on January 1, 2014.

BMCHP is an affiliate of BMC. BMC capitalized BMCHP in 1997 with \$10 million received from the Commonwealth. In fiscal year 2001, BMCHP transferred \$7.5 million back to BMC. Effective July 1, 2013, as a result of an internal only corporate reorganization, BMC Health System, Inc. (“BMCHS”) replaced BMC as BMCHP’s sole corporate member. The BMCHP president reports to BMCHS’s president and chief executive officer. BMCHP maintains a separate Board of Trustees but shares BMCHS Board committees. BMCHS is a non-profit corporation that oversees the operations of BMC, BMCHP, and various affiliates and associated services. The BMCHS is the sole corporate member of both BMC and BMCHP.

On January 31, 2015, the Company exited from the Western Region for the Commonwealth Care program. All members moved to MassHealth or a QHP.

On January 1, 2016, BMCHP launched a Medicare Advantage Dual Eligible Special Needs Plan, i.e., a Senior Care Option program (“SCO”). The SCO program is jointly administered by MassHealth and the Massachusetts Executive Office of Health and Human Services (“EOHHS”). In 2018, the SCO program expanded to four additional counties.

On March 1, 2018, the MassHealth Accountable Care Organization (“ACO”) program was launched, and BMCHP started to provide ACO covered services to enrollees. In August 2017, BMCHP entered into a contract with the EOHHS to serve as an Accountable Care Partnership plan for the ACO program. Starting December 31, 2017, BMCHP will receive Delivery System Reform Incentive Payment (“DSRIP”) funding.

On March 1, 2018, the Commonwealth relaunched its Managed Care Organization (“MCO”) program with BMCHP as one of the two health plans selected under the procurement process to provide coverage for MCO enrollees. As part of the MCO procurement process, BMCHP was also selected to manage the Special Kids Special Care (“SKSC”) program.

Dividends

The Company does not issue shares nor pay dividends.

MANAGEMENT AND CONTROL

Board of Trustees Minutes

The minutes of meetings of the Board of Trustees, or consent actions in lieu of meetings, and minutes of its Subcommittee meetings for the period under examination were read, and they indicated that all actions were taken in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified by the Board of Trustees.

Articles of Organization and Bylaws

The Articles of Organization ("Articles") of the Company have been amended three times, on April 13, 2010, July 1, 2013 and June 15, 2016, since the Company's incorporation on June 12, 1997. The Articles, bylaws and amendments were read and reviewed.

Board of Trustees

According to the bylaws, the Company's business shall be managed by the Board of Trustees ("Board") which may exercise all of the powers of the Company, except as otherwise provided by the Articles or bylaws. The Board shall consist of the President and Chief Executive Officer ("CEO") of the BMCHS, BMCHP's President and a Chair, and no more than 12 additional trustees who shall be elected by the majority vote of all of the trustees from among the slate of candidates nominated by a Nominating Committee. The term of office of each trustee shall be up to three years, or until a successor has been appointed and qualified, but no trustee should be elected to serve more than three consecutive year terms. Any trustee may be removed from the Board in accordance with the bylaws of the Company. Vacancies on the Board shall be filled in accordance with the provisions of the bylaws. The Board shall have and may exercise the powers of the trustees notwithstanding any vacancies in their numbers.

As of December 31, 2017, the Company's Board was comprised of thirteen trustees as follows:

<u>Name of Trustee</u>	<u>Title</u>
David Ament	Chairman, Boston Medical Center Health Plan Board of Trustees, Managing Partner, Parthenon Capital Partners
James Blue	Chief Executive Officer, Marsh & McLennan Agency
Ryan Carroll	Managing Director, Charlesbank Capital Partners, LLC
Susan Coakley*	President, Boston Medical Center Health Plan, Inc.
Sandra Cotterell	Chief Executive Officer, Codman Square Health Center
Stacy Cowan	Founder and Chief Executive Officer, SLC Advisory Services
Pierre Cremieux	Managing Principal, Analysis Group
Christopher Gordon	Managing Director, Bain Capital
Frank Ingari	President and Chief Executive Officer, NaviNet, Inc.

Boston Medical Center Health Plan, Inc.

* Effective February 8, 2019, Susan Coakley left the Company and her seat on the Board remains vacant at this time.

<u>Name of Trustee</u>	<u>Title</u>
Keith Lewis, M.D.	Chief, Department of Anesthesiology Professor and Chairman of Anesthesia, Boston Medical Center & Boston University School of Medicine
Robert Sweet	Partner, Foley Hoag, LLP
Mark Taber	Managing Partner, Great Hill Partners
Kathleen Walsh	President and CEO, Boston Medical Center

Committees of the Board of Trustees

The bylaws allow that the trustees may delegate any of their powers to committees established by them or the bylaws. Standing committees of the Board include a Finance Committee, a Compensation Committee, a Quality and Clinical Management Committee, a Compliance Committee, a Risk Oversight Committee and other committees as they may determine. In addition, BMCHS's Audit and Compliance Committee is the designated Audit Committee for the Company. In accordance therewith, the Board appointed an Investment Committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities.

Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be the Chairman of the Board of Trustees, President, Treasurer, and Clerk.

As of December 31, 2017, the Company's Officers were as follows:

<u>Name of Officer</u>	<u>Title</u>
David Ament	Chairman of the Board
Susan Coakley*	President
Laurie Doran**	Treasurer
Matthew Herndon***	Clerk

* Effective February 8, 2019, Alastair Bell was temporarily elected to fill the President vacancy left by Susan Coakley.

** Effective April 10, 2018, Michael Guerriere was elected to fill the Treasurer vacancy left by Laurie Doran.

*** Effective October 9, 2018, David Beck was elected to fill the Clerk vacancy left by Matthew Herndon.

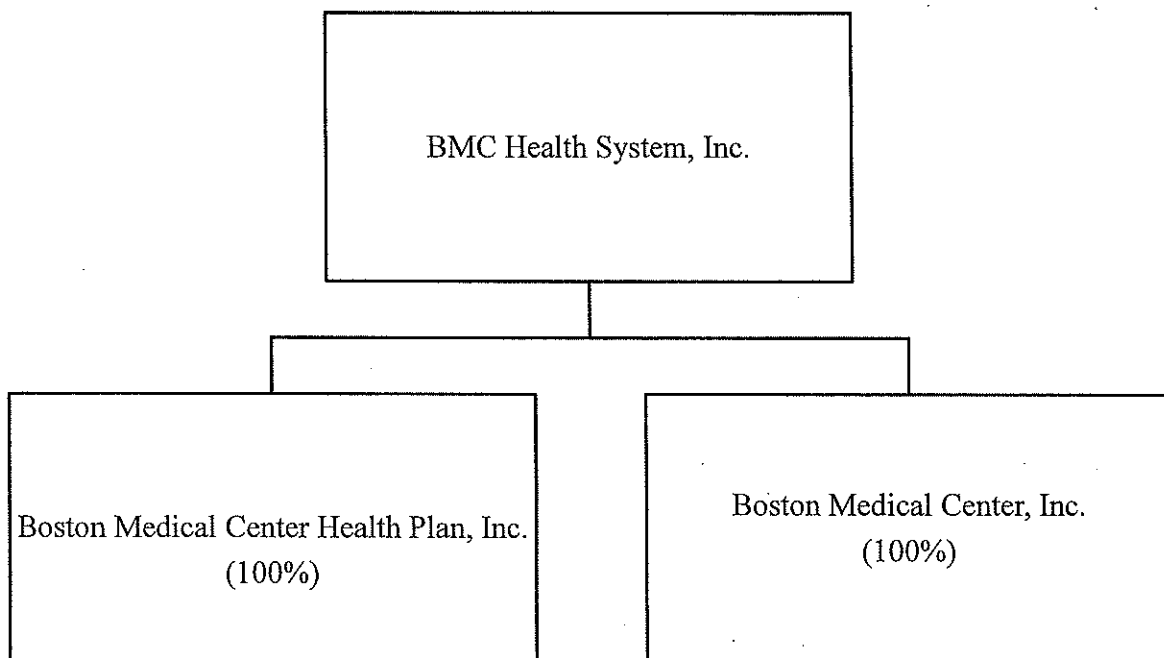
Boston Medical Center Health Plan, Inc.

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. The BMCHS is the “ultimate controlling person” of the Company.

Organizational Chart

At December 31, 2017, Boston Medical Center Health Plan, Inc. and its affiliated companies were members of the following organizational structure:



Transactions and Agreements with Affiliates

Line of Credit

Effective June 2015, BMCHP entered into an intercompany line of credit agreement with BMC in which BMC agreed to provide working capital support in the amount not to exceed \$25 million to BMCHP in the event of late contract payments from the EOHHS or the DHHS. In 2017, the line of credit was increased to \$50 million. During the year ended December 31, 2017, BMC advanced to BMCHP various amounts under its line of credit arrangement. These advances were repaid as of December 31, 2017.

Sublease Agreement

Effective November 2016, BHCHP entered into a ten-year sublease agreement with BMC to lease space at its new main office facility located in Charlestown, MA.

Boston Medical Center Health Plan, Inc.

Medical Services Agreements

The BMCHP has a participating provider agreements with BMC, the Faculty Practice Foundation, Inc. ("FPF"), the FPF's affiliated practice plans, and BMC Integrated Care Services, Inc., whereas BMC and the Faculty plans provide medical services to individuals enrolled in BMCHP's MassHealth, Senior Care Options ("SCO"), New Hampshire Medicaid, and QHP/commercial health plans. BMCHP is obligated to pay these contracting providers for the services provided to BMCHP's members according to the rates and terms set forth in the agreements.

SCO Business Guarantee

BMCHS has a guarantee to the MA EOHHS for up to \$1.4 million of BMCHP's obligations to provide SCO covered services and related administrative services in the event of a BMCHP insolvency.

Management and Administrative Services Agreement

BMCHP and BMC are parties to a Management and Administrative Services Agreement in which BMC provides routine administrative services for BMCHP.

Specialty Pharmacy Agreement

On November 3, 2017, Boston Medical Center entered into an agreement with BMCHP to provide specialty pharmacy products and other related services to individuals enrolled in current or future BMCHP managed care products offered in Massachusetts, starting on January 13, 2018. BMCHP will cover "Covered" prescriptions filled at Boston Medical Center less any copayment owed by the patient at time of the order.

Capital Contributions

In 2016, BMC made a capital contribution to BMCHP in the amount of \$7.3 million.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the Commonwealth of Massachusetts and the State of New Hampshire. BMCHP is headquartered in Charlestown, Massachusetts and is focused on the greater Boston, Massachusetts area and surrounding communities. The Company reported \$1.2 billion and \$338.6 million of 2017 direct premium written in Massachusetts and New Hampshire, respectively.

REINSURANCE

Ceded Reinsurance

On September 14, 2016, BMCHP transferred \$10,000,000 to BMC to capitalize Boston Medical Center Insurance Co., Ltd of Vermont (BMCICVT), which is a wholly owned by BMCHS. BMCHP entered into a reinsurance agreement with BMCICVT for coverage of its MassHealth members for the period of October 1, 2016 through September 30, 2017. The reinsurance agreement coverage period for the MassHealth members was extended for the period from October 1, 2017 through September 30, 2018. Effective January 1, 2018, the Company expanded its

Boston Medical Center Health Plan, Inc.

reinsurance coverage to include the QHP and SCO members. Effective September 30, 2018, the Company decided to make BMCICVT dormant and received their \$10,000,000 capital contribution back.

The Company is currently self-insuring their Massachusetts products. BMCHP is in the process of looking for alternatives and other reinsurance arrangements for the lines of business impacted by the winding down of their Vermont captive.

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, 2017. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2017

Statement of Revenue and Expenses for the Year Ended December 31, 2017

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2017

Boston Medical Center Health Plan, Inc.

Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2017

	Per Annual Statement
ASSETS	
Bonds	\$ 166,470,114
Common stock	47,612,213
Cash, cash equivalents, and short-term investments	75,899,786
Subtotals, cash and invested assets	<u>289,982,113</u>
Investment income due and accrued	481,717
Uncollected premiums and agents' balances	2,961,576
Amounts recoverable from reinsurers	1,063,746
Electronic data processing equipment and software	4,254,956
Receivable from parent, subsidiaries and affiliates	1,850,282
Health care and other amounts receivable	<u>162,949,176</u>
Total Assets	<u>\$ 463,543,566</u>

Boston Medical Center Health Plan, Inc.

Statement of Assets, Liabilities, Capital and Surplus (Continued)
as of December 31, 2017

	Per Annual Statement
LIABILITIES	
Claims unpaid	\$ 110,511,695
Accrued medical incentive pool and bonus amounts	5,653,774
Unpaid claims adjustment expenses	4,042,000
Aggregate health policy reserves	76,691,434
General expenses due or accrued	29,867,341
Ceded reinsurance premium payable	554,361
Amounts due to parent, subsidiaries and affiliates	772,476
Payable for securities	2,198,792
Aggregate write-ins for liabilities	14,400
Total Liabilities	<u>230,306,273</u>
Gross paid in and contributed surplus	7,300,000
Unassigned funds (surplus)	<u>225,937,293</u>
Total Capital and Surplus	<u>233,237,293</u>
Total Liabilities, Capital and Surplus	<u>\$ 463,543,566</u>

Boston Medical Center Health Plan, Inc.

Statement of Revenue and Expenses
For the Year Ended December 31, 2017

	Per Annual Statement
Net Premium Income	\$ 1,618,455,495
Hospital and Medical	
Hospital/medical benefits	873,604,437
Other professional services	134,572,308
Emergency room and out-of-area	122,545,117
Prescription drugs	389,346,025
Incentive pool, withhold adjustments and bonus amounts	377,456
Net reinsurance recoveries	(1,063,746)
Total hospital and medical	<u>1,519,381,597</u>
Claims adjustment expenses	64,064,043
General administrative expenses	77,385,231
Increase in reserves for life and accident and health contracts	(21,000,000)
Total underwriting deductions	<u>1,639,830,871</u>
Net underwriting gain/(loss)	<u>(21,375,376)</u>
Net investment income earned	5,189,504
Net realized capital gains/(losses) less capital gains tax of \$0	14,291,277
Net investment gain/(loss)	<u>19,480,781</u>
Net income/(loss) after capital gains tax and before all other federal income taxes	(1,894,595)
Federal and foreign income taxes incurred	<u>0</u>
Net income/(loss)	<u>(\$ 1,894,595)</u>

Boston Medical Center Health Plan, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2017

	2017	2016	2015
Capital and surplus, December 31 prior year	\$236,191,532	\$253,632,146	\$204,244,790
Net income (loss)	(1,894,595)	(4,546,422)	47,799,306
Change in net unrealized capital gains or (losses) less capital gains tax	(1,927,453)	-	-
Change in nonadmitted assets	867,809	(2,894,192)	1,588,050
Dividends to stockholders		(10,000,000)	
Change in surplus as regards policyholders for the year	(2,954,239)	(17,440,614)	49,387,356
Capital and surplus, December 31 current year	<u>\$233,237,293</u>	<u>\$236,191,532</u>	<u>\$253,632,146</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

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

The Division engaged the consulting actuaries from RRC to review the reasonableness of the unpaid claims and unpaid claims adjustment expense reserves ("Reserves") of the Company as of December 31, 2017. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

RRC's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2017. The table below summarizes a comparison of RRC's range of reasonable net estimates for the reserves to the Company's net carried reserves as of December 31, 2017.

Summary of Indicated Reserves (\$000's)

	RRC Estimate			Company Carried	Difference		
	Low	Central	High		Low	Central	High
Net	90,142	100,012	110,092	114,554	24,412	14,542	4,462

The Company's total net carried reserves are above RRC's central estimate and slightly above their high end of the range. However, given the volatility in the actual claims as compared to the reserve estimates, RRC concludes the Company's reserves represented a reasonable estimate of the Company's ultimate liability.

SUBSEQUENT EVENTS

No subsequent events or transactions that occurred after the December 31, 2017 examination date were noted that would have had a material effect on the Company's financial statements.

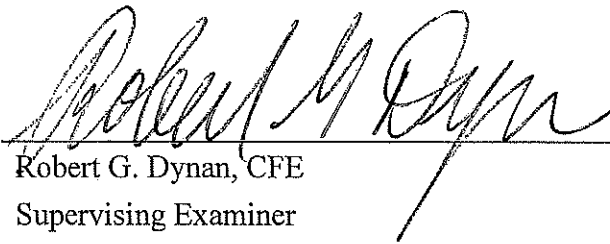
SUMMARY OF RECOMMENDATIONS

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.

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 Risk & Regulatory Consulting, LLC who participated in the examination is hereby acknowledged.

A handwritten signature in black ink, appearing to read "Robert G. Dynan", is written over a horizontal line.

Robert G. Dynan, CFE

Supervising Examiner

Commonwealth of Massachusetts

Division of Insurance