



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

CONNECTICARE OF MASSACHUSETTS, INC.

Boston, Massachusetts

As of December 31, 2018

NAIC GROUP CODE 1127

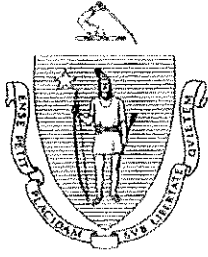
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CONNECTICARE OF MASSACHUSETTS, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

January 14, 2020

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

CONNECTICARE OF MASSACHUSETTS, INC.

at its home office located at 175 Scott Swamp Road, Farmington, Connecticut, 06032-3124. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

ConnectiCare of Massachusetts, Inc. ("Company") 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 four year period from January 1, 2015 through December 31, 2018, 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's 2018 audit was performed by Deloitte & Touche LLP ("Deloitte"), an independent certified public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar years 2015 through 2018. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective.

A coordinated examination was performed by the Connecticut Insurance Department on their companies within the ConnectiCare Group. The Division relied on the work performed by the Connecticut examiners during their concurrent examinations, for their review of the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems. In addition the Division has relied upon Connecticut's review of the actuarial controls regarding the determination of actuarially determined items.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

The examination included a review to verify the current status of findings commented upon in the Report of Examination as of December 31, 2014. There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

ConnectiCare of Massachusetts, Inc. is a for-profit health maintenance organization that provides managed care services in Hampden, Hampshire, Franklin, and Worcester counties of Massachusetts. The Company is a wholly owned subsidiary of ConnectiCare Capital LLC ("Capital LLC"), which is a wholly owned subsidiary of ConnectiCare Holding Company, Inc. ("The Parent"). On June 22, 2001, following approval by the Division, ownership and control of the Company was transferred from the Parent to Capital LLC as part of a corporate recapitalization. On March 10, 2005, the Parent and its subsidiaries were acquired by HIP Holdings, Inc. ("HIP").

HIP is a for-profit, Delaware holding corporation and is a wholly owned subsidiary of Health Insurance Plan of Greater New York, ("HIPNY") a New York State not-for-profit corporation operating under the provisions of Article 43 of the Insurance Law of the State of New York. HIPNY and its subsidiaries are providers in managed care products and services in the New York City Metropolitan Area.

On November 15, 2006, having received regulatory approval from the New York State Insurance Department, the Board of Directors of GHI Services, LLC ("GHI") and HIP Foundation, Inc. ("The Foundation"), the parent corporation of HIP combined GHI and HIP under the leadership of the Foundation as the sole corporate member of both companies. Also, on that date, the name of the Foundation was changed to EmblemHealth, Inc. Both GHI and HIP named an equal number of Directors to the Board of Directors of EmblemHealth, Inc.

Dividends to Stockholders

There have been no dividends paid to stockholders during the current examination period.

MANAGEMENT AND CONTROL

Board of Directors

At December 31, 2018, the Board of Directors ("Board") was comprised of two Directors, which is in compliance with the Company's bylaws. The bylaws state that the number of Directors shall be between one and seven members.

ConnectiCare of Massachusetts, Inc.

The Director's names and business affiliation at December 31, 2018 were as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>
Karen M. Ignagni Chairperson	President and Chief Executive Officer Emblem Health, Inc.
Eric B. Galvin	President ConnectiCare, Inc.

Officers

The bylaws provide that the officers of the Company shall include a Chairman, a President, Clerk and a Treasurer. The Directors may elect other officers at any time, while also specifying the title, powers, duties and term of office. The officers are elected at the first meeting of the Directors following each annual meeting of the stockholders and shall hold office for one year.

The elected officers and their respective titles at December 31, 2018 are as follows:

<u>Name of Officer</u>	<u>Title</u>
Karen M. Ignagni	Chairperson
Eric B. Galvin	President
Mark O. Porter	Vice President and Chief Financial Officer
Robert A. Kosior	Senior Vice President and Chief Operating Officer
Karen M. Cullina, Esq.	Vice President and Secretary
Jeffery D. Chansler, Esq.	Assistant Secretary
Frank A. Scalise	Vice President and Treasurer
Cheryl Hutchinson	Senior Vice President
Roberta D. Wachtelhausen	Senior Vice President

Audit and Finance Committee

The Board of Directors has appointed an Audit and Finance Committee ("Committee") which is comprised of three members. The Committee is responsible, on behalf of the Board, for oversight of internal controls. The oversight includes financial reporting, corporate compliance and the adequacy of audit efforts, both internal and external. In addition, the Committee has the authority to engage independent counsel and other advisors to carry out its duties. The members of this Committee at December 31, 2018 were as follows: Michael Palmateer, Chairman, Richard Hurley and Jay Russ.

Holding Company

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts

ConnectiCare of Massachusetts, Inc.

General Law Chapter 175, Section 206C. ConnectiCare Capital LLC owns 100% of the issued and outstanding common stock of the Company.

Transactions and Agreements with Subsidiaries and Affiliates

In connection with shared service agreements between the parent, the Company and other affiliates, certain costs, including facilities and services are purchased jointly on behalf of the Company, the parent, and affiliates in the ordinary course of business. The Company has the following key intercompany agreements in place:

Tax Sharing Agreement

The Company is party to a tax sharing agreement with HIP Holding. HIP Holding files a consolidated federal income tax return for other affiliates. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate tax return liabilities of all affiliates that are members of the consolidated group.

Administrative Services Agreements

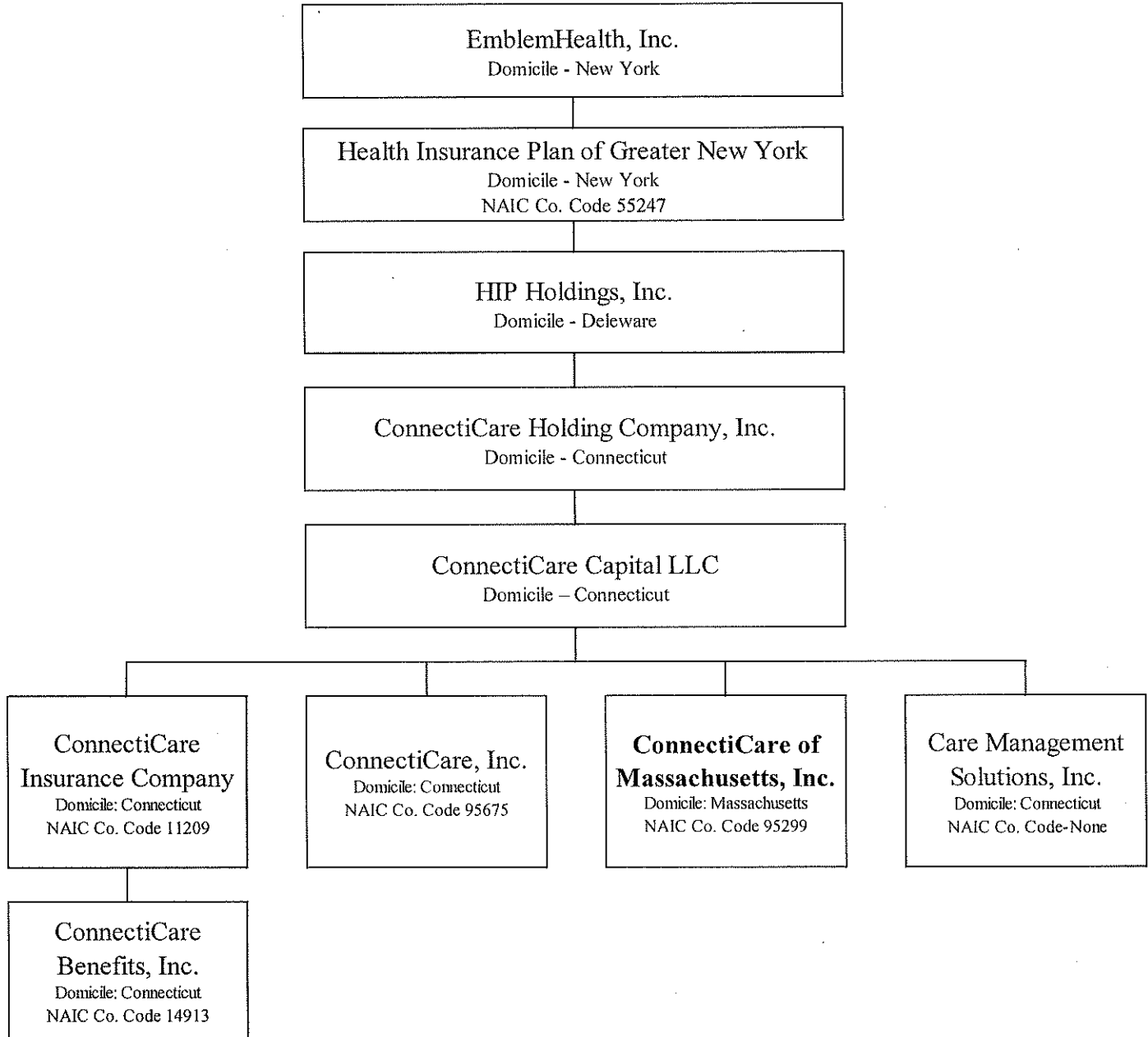
The Company is party to an administrative services agreement with EmblemHealth Services Company LLC. This agreement delegates specific Medicare services that include: sales; enrollment and premium billing; member services; provider services; claims and liability recovery; pharmacy administration; grievances and appeals; vendor interactions; conductivity and business support; legal and compliance; network support; and payment of behavioral health claims for private fee-for-service plans on a cost basis.

The Company is party to an administrative services agreement with ConnectiCare Holding Company, Inc. This agreement provides services of: certain personnel; facilities; equipment; personal property; licenses; and contracts owned or leased by the Company. Services provided under this contract include: financial and accounting services (including actuarial); banking and treasury operations; investment custodial services; underwriting; forms and rates; claims processing; utilization review; credentialing; marketing; agency development; member services; fraud and abuse; personnel; information systems; legal and government relations on a cost basis.

ConnectiCare of Massachusetts, Inc.

Organization Chart

As of year-end 2018 an abbreviated organizational structure of the Company and its affiliated companies is shown below.



TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in Massachusetts and is not licensed in any other state.

REINSURANCE

The Company currently participates in an excess of loss reinsurance agreement with RGA Reinsurance Company, an authorized Massachusetts reinsurer. Under the terms of this agreement, RGA Reinsurance Company will reimburse the Company for eligible expenses in excess of \$1,500,000 up to \$1,600,000 for individual and small group and up to \$4,000,000 for large groups.

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, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2018

Statement of Revenue and Expenses As of December 31, 2018

Reconciliation of Capital and Surplus For the Four Year Period Ended December 31, 2018

ConnectiCare of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2018

	Per Annual Statement
Assets	
Bonds	\$ 1,788,156
Cash, cash equivalents and short-term investments	493,389
Subtotals, cash and invested assets	<u>2,281,545</u>
Investment income due and accrued	15,721
Premiums and considerations:	
Accrued retrospective premiums	399,561
Current federal income tax recoverable	23,789
Net deferred tax asset	20,302
Receivables from parent	992,095
Health care and other amounts receivable	22,243
Aggregate write-ins for other than invested assets	6,500
Total Assets	<u><u>\$ 3,761,756</u></u>
Liabilities	
Claims unpaid	\$ 220,210
Unpaid claims adjustment expenses	2,970
Premiums received in advance	35,167
General expenses due or accrued	158,565
Ceded reinsurance premiums payable	247
Amounts due to parent, subsidiaries and affiliates	640,166
Total Liabilities	<u>1,057,325</u>
Common capital stock	1,000
Gross paid-in and contributed surplus	1,683,095
Unassigned funds (surplus)	1,020,336
Total capital and surplus	<u>2,704,431</u>
Total Liabilities, Capital, and Surplus	<u><u>\$ 3,761,756</u></u>

ConnectiCare of Massachusetts, Inc.
Statement of Revenue and Expenses
As of December 31, 2018

	Per Annual Statement
Net premium income	\$ 3,211,988
Total revenues	<u>3,211,988</u>
Hospital and Medical:	
Hospital/medical benefits	1,247,975
Other professional services	1,801
Prescription drugs	<u>467,207</u>
Subtotal	1,716,983
Less:	
Net reinsurance recoverables	<u>(1,981)</u>
Total hospital and medical	1,718,964
Claims adjustment expenses, including \$42,088 cost containment expenses	79,065
General administrative expenses	<u>442,120</u>
Total underwriting deductions	2,240,149
Net underwriting gain	<u>971,839</u>
Net investment income earned	44,470
Net investment gains	<u>44,470</u>
Net income after capital gains tax and before all other federal and foreign income taxes	1,016,309
Federal and foreign income taxes incurred	<u>294,314</u>
Net Income	<u>\$ 721,995</u>

ConnectiCare of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Four Year Period Ended December 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and surplus as of December 31, prior year	\$ 1,949,937	\$ 1,479,768	\$ 2,138,253	\$ 3,103,799
Net income (loss)	721,995	487,008	(666,226)	(946,741)
Change in net deferred income tax	25,255	(11,145)	(11,764)	(13,626)
Change in non-admitted assets	<u>7,244</u>	<u>(5,694)</u>	<u>19,505</u>	<u>(5,179)</u>
Net change capital and surplus for the year	<u>754,494</u>	<u>470,169</u>	<u>(658,485)</u>	<u>(965,546)</u>
Capital and surplus as of December 31, current year	<u>\$ 2,704,431</u>	<u>\$ 1,949,937</u>	<u>\$ 1,479,768</u>	<u>\$ 2,138,253</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 adverse findings, or changes to the financial statements were identified.

SUBSEQUENT EVENTS

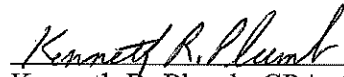
No subsequent events or transactions that occurred after the December 31, 2018 examination date were noted that would have had a material effect on the Company's financial statements.

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.



Kenneth R. Plumb, CPA, CFE
Supervising Examiner and Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance