



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

*Report on the Statutory Examination of
ConnectiCare of Massachusetts, Inc.*

Boston, MA

As of December 31, 2005

NAIC COMPANY CODE: 95299

EMPLOYERS ID NUMBER: 06-1576788

Commonwealth of Massachusetts Division of Insurance
REPORT ON THE STATUTORY EXAMINATION OF
CONNECTICARE OF MASSACHUSETTS, INC.

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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SECRETARY OF HOUSING AND
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DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

May 30, 2007

The Honorable Steve Goldman
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
New Jersey Department of Insurance
20 West State Street CN325
Trenton, New Jersey 08625

The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02210-2208

Honorable Commissioners:

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 Main Administrative Office located at:

175 Scott Swamp Road
Farmington, CT 06032-3124

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This statutory examination of ConnectiCare of Massachusetts, Inc., hereinafter referred to as "the Company," "the Corporation," "CMI," or "the Plan," is as of December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. KPMG LLP (KPMG) has applied certain agreed upon procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Commonwealth of Massachusetts Division of Insurance ("the Division").

The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Division. The statutory examination was performed at the Company's main administrative office in Farmington, Connecticut. KPMG was engaged to perform certain agreed-upon procedures, which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2005. KPMG's Information Technology Advisory Services (ITAS) personnel were engaged to perform an Evaluation of Controls in Information Systems Questionnaire in a form substantially similar to the one established in the *NAIC Financial Condition Examiners' Handbook*. The ITAS Specialists performed examination procedures pertaining to the examination of the IT systems as outlined in the *NAIC Financial Condition Examiners' Handbook*. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

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*.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, provider contracts, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the Division placed reliance on certain workpapers provided by the Company's external auditors, Deloitte & Touche LLP (D&T). Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

DESCRIPTION OF COMPANY

History

ConnectiCare of Massachusetts, Inc. is a for-profit health maintenance organization (HMO) that provides managed care services to its members primarily in Hampden, Hampshire and Franklin counties in 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"), a holding company incorporated in Connecticut. On March 10, 2005 the Parent and its subsidiaries were acquired by Health Insurance Plan of Greater New York (HIP).

The Company was formed in December 1999 as part of a reorganization plan intended to convert existing operations to for-profit status to improve access to capital markets. The effective date of the reorganization was July 1, 2000, following approval of the Division and the Massachusetts Attorney General.

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On June 22, 2001, following approval of the Division, ownership and control of the Company was transferred from the Parent to Capital LLC as part of a corporate recapitalization (“the recapitalization”).

HIP is a New York not-for-profit corporation operating under the provision of Article 43 of the Insurance Laws of the State of New York. HIP and its subsidiaries are providers in managed care products and services in the New York City metropolitan area.

The Company files a consolidated federal tax return with HIP, the Parent and affiliated companies. In accordance with tax sharing agreements among the Parent, the Company calculates its federal and state tax expense on a separate company basis.

Capital and Surplus

Capital and Surplus consists of capital contributed to the company and the excess of revenues over expenses since inception. The total admitted assets, total liabilities and capital and surplus of the Company from 2003 to 2005 are shown in the following schedule.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2003	\$7,525,797	\$4,542,124	\$2,983,673
2004	9,007,868	4,997,728	4,010,140
2005	8,835,378	3,396,615	5,438,763

MANAGEMENT AND CORPORATE RECORDS

Articles of Organization and By-Laws

The name and purposes of the Corporation shall be set forth in the Articles of Organization. The By-Laws, the powers of the Corporation and its Directors and stockholders, and all matters concerning the conduct and regulation of the business of the Corporation, shall be subject to provisions in regard thereto, if any, as set forth in the Articles of Organization. All references in the By-Laws to the Articles of Organization shall be construed to mean the Articles of Organization of the Corporation as from time to time amended or restated.

BOARD OF DIRECTORS

As determined by resolution duly adopted by the Board of Directors (“the Board”) on March 11, 2005, the size of the Board increased from three (3) Directors to six (6) Directors. No Director need be a resident of Massachusetts or a stockholder of the Corporation. The Board may be reduced or enlarged at any time by the majority vote of the Directors then in office or by the majority vote of the Stockholders.

At December 31, 2005, the Board was comprised of:

<u>Director</u>	<u>Principal Occupation</u>	<u>Tenure</u>
Gail Bogossian, Esq.	V.P. & General Counsel, ConnectiCare, Inc. and Affiliates	12/28/1999 – present
Michael D. Fullwood, Esq.	Exec. V.P., CFO, General Counsel & Secretary, HIP	3/11/2005 – present
Michael E. Herbert	President & CEO, ConnectiCare, Inc. & Affiliates	9/10/2005 – present
Daniel T. McGowan	President & COO, HIP	3/11/2005 – present
Anthony L. Watson	Chairman of the Board, HIP	3/11/05 – present
One Open Seat at 12/31/2005		

Committees of the Board

Article 4.14 of the By-Laws allows the Board, by vote of a majority of the Directors then in office, to designate one or more committees; each committee to consist of two (2) or more Directors, which to the extent provided in said resolution or resolutions shall have and may exercise the powers and authority of the Board in the management of the business and affairs of the Corporation; provided that no such committee shall have the powers to (a) elect Directors, (b) alter, amend, or repeal the By-Laws or any resolution of the Board relating to such committee, (c) appoint any member of such committee, (d) declare any dividend or make any other distribution to the stockholders of the Corporation or (e) take any other actions which may lawfully be taken only by the full Board. Such committee or committees shall have such name or names as may be determined from time to time by resolutions adopted by the Board.

Based on the review of the Plan's structure, no committees exist currently or existed during the examination period.

OFFICERS

According to Article 5.1 of the By-Laws, officers of the Company shall consist of a President, a Clerk and a Treasurer. The Board shall also elect a Chairman of the Board pursuant to Article 5.2. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Other officers, if any, may be elected or appointed by the Board at any time. The roles and responsibilities of the President, Clerk, and Treasurer are defined in the By-Laws.

The elected officers and their respective titles at December 31, 2005 were as follows:

<u>Officer</u>	<u>Elected Title</u>
Anthony L. Watson	Chairman
Michael E. Herbert	President and Chief Executive Officer
Scott F. Nai, CPA	Assistant Treasurer
Gail Bogossian, Esq.	Vice President & General Counsel
Paul A. Bluestein, MD	Senior Vice President and Chief Medical Officer
Ronald I. Blumenfeld, MD	Vice President
William F. Carroll	Vice President
Mark G. Dixon	Vice President and Chief Information Officer
Paul M. Philpott	Senior Vice President and Chief Marketing Officer
Richard A. Rogers	Vice President
Ida M. Schnipper, RN	Senior Vice President

CONFLICT OF INTEREST PROCEDURES

The Company has in place specific conflict of interest policy statements and confidentiality agreements for its Directors and Officers.

CORPORATE RECORDS

Articles of Organization and By-Laws

Our review of the Articles of Incorporation and By-Laws indicated that there were no changes since the prior examination date, December 31, 2002.

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Board of Directors Minutes

The minutes of the Board for the period under statutory examination were reviewed and indicated that all meetings were held in accordance with the Corporate By-Laws and the laws of the Commonwealth of Massachusetts.

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

On March 10, 2005, ConnectiCare Holding Company, Inc. and its subsidiaries were acquired by the Health Insurance Plan of Greater New York (HIP). HIP is a New York not-for-profit corporation operating under the provisions of Article 43 of the Insurance Laws of the State of New York. HIP and its subsidiaries are providers in managed care products and services in the New York City metropolitan area.

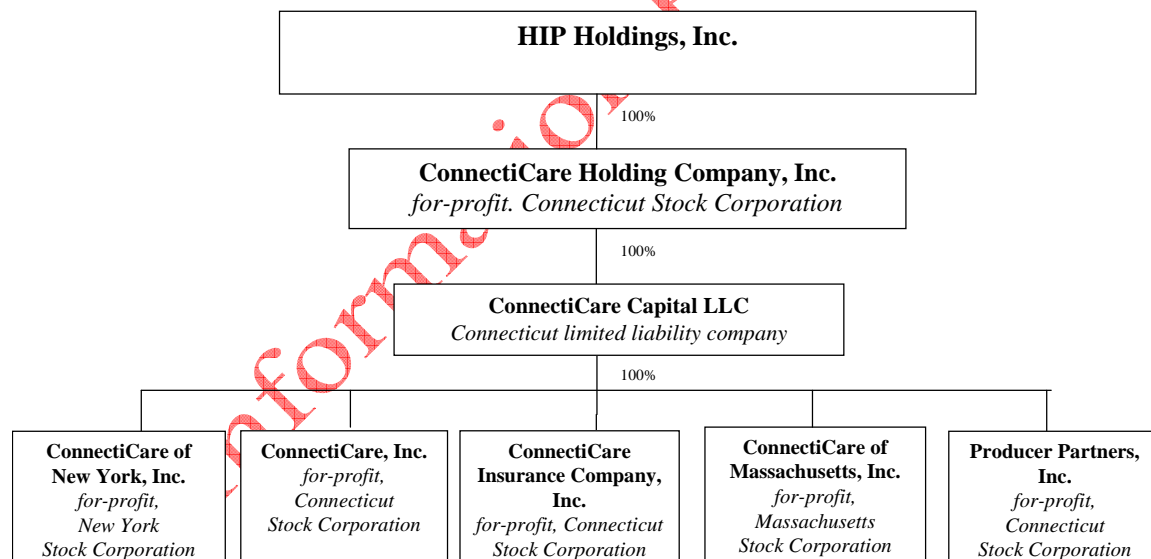
MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws, Chapter 175 §§ 180M-180Q.

AFFILIATED COMPANIES

Subsidiaries and Affiliated Companies

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2005 is illustrated below:



RELATED PARTY TRANSACTIONS

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. All such transactions are allocated at cost and are based on estimates of resources used on various affiliate matters. Amounts charged to the Company for expenses were approximately \$4,625,000 and \$4,268,000 in 2005 and 2004, respectively, and are included in general and administrative expenses in the statutory-based statements of income.

FIDELITY BOND AND OTHER INSURANCE

The Corporation maintains fidelity bond coverage with an authorized Massachusetts insurer. The aggregate limit of liability is within the NAIC suggested minimum.

In addition to the bond insurance, the Corporation has other insurance purchased from authorized insurers in the form of professional liability and excess professional liability coverage.

PENSION AND INSURANCE PLANS

The Company has no employees of its own. The Parent maintains two retirement plans, the Cash Balance Plan (a defined benefit plan), and the Savings and Investment Plan (a defined contribution plan). Costs associated with these two retirement plans charged back to the Company totaled \$54,108 in 2005.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2005 are as follows:

Description of Deposit	Where Deposited	Par or Book Value	Statement Value	Market Value
U.S. Treasury Note	GenRe New England Asset Management	\$500,000	\$507,906	\$499,590
U.S. Treasury Note	GenRe New England Asset Management	500,000	499,332	493,065
TOTAL		<u>\$1,000,000</u>	<u>\$1,007,238</u>	<u>\$992,655</u>

TERRITORY AND PLAN OF OPERATION

Territory

The Company is only licensed to transact business in the Commonwealth of Massachusetts.

Plan of Operations

ConnectiCare of Massachusetts, Inc. maintains its statutory home office c/o LeBoeuf, Lamb, Greene & MacRae, LLP in Boston, MA and maintains its headquarters in Farmington, CT.

PRODUCTS

The Company provides several health care products to satisfy the health benefit needs of employers and their employees. The products offered include:

- (1) Consumer-Driven Health Plans (CDHPs)
- (2) HMO Personal Care Plan
- (3) HMO Open Access Plan
- (4) Point-Of-Service (POS) Personal Care Plan
- (5) Point-Of-Service (POS) Open Access Plan

An overview of basic plan design for each is as follows:

Consumer-Driven Health Plans (CDHPs) - Can be combined with Health Reimbursement Arrangements (HRAs) or Health Savings Accounts (HSAs) in accordance with Department of Treasury regulations.

- **High-Deductible Health Plans (HDHPs)** – Plans in which the deductible is applied on a combined basis for Medical and Pharmacy expenses. These plans can be used with Health Savings Accounts (HSAs).
- **Hospital Deductible Plans** – Plans in which, after the hospital deductible is met, benefits will be paid subject to the member's payment of his or her cost-share amount for ambulatory services (outpatient) and inpatient hospitalization services. For most other covered health services, members have a co-payment cost-share.
- **Upfront Deductible Plans** – Plans in which, after the plan deductible is met, benefits will be paid subject to the member's payment of their cost-share amount. Also, some types of preventative care are exempt from the plan deductible.

HMO Personal Care Plan – A referral from the member's Primary Care Physician (PCP) or a delegated program is necessary before using the services of other participating practitioners and provider facilities.

HMO Open Access Plan – No referral is necessary as long as the member is seeking care from participating practitioners including facilities in network.

Point-Of-Service (POS) Personal Care Plan – A referral from the member's PCP or a delegated program to a participating provider is necessary in order to receive the highest level of benefits.

Point-Of-Service (POS) Open Access Plan – Members do not require a referral before seeking services, however, by choosing participating practitioners and provider facilities within the network the member will be assured the highest level of benefits.

PROVIDER CONTRACTS

The Company has entered into contractual agreements with various health care providers to provide health care services to its health plan members. These "provider contracts" spell out the terms, conditions, and criteria, which must be met in order for the contract to remain in effect. Payments for services provided to plan members are determined on a contracted-rate or capitated basis.

RESERVES

In conjunction with KPMG's examination of the statutory financial statements of ConnectiCare, KPMG was engaged by the Division to review the adequacy of the Unpaid Claim Liability (UCL) of ConnectiCare as of December 31, 2005, and to perform a premium adequacy analysis as of December 31, 2005.

KPMG actuaries prepared independent estimates of the unpaid claim liabilities for December 2005 and prior periods. For December 31, 2005, completion factors for the projection of ultimate incurred claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from KPMG's range of incurred claims estimates. As the ConnectiCare business pays fairly quickly, the range of estimates for the December 31, 2005 UCL is narrow and KPMG's estimates are similar to ConnectiCare's estimates with hindsight through April 30, 2007.

Based upon KPMG's review, the UCL at December 31, 2005 appears to be fairly stated in aggregate in all material respects. ConnectiCare made a separate provision for Unpaid Claims Adjustment Expenses in 2005 in accordance with standard actuarial practice. The resulting expense percentage levels used are within industry norms.

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KPMG reviewed ConnectiCare's premium deficiency reserve calculation and found it to be reasonable. The Company did not book a premium deficiency reserve at December 31, 2005. This appears appropriate based on recent financial results, and the Company's ongoing rate monitoring process.

REINSURANCE

Under the terms of its agreements with reinsurers, reinsuring carriers are liable for claims exceeding certain threshold amounts subject to annual per-member deductibles that vary by reinsurer. The reinsurers' risk of loss with respect to individual members is limited to \$1,000,000 per contract year. Under these arrangements, the Company recorded net reinsurance benefits in its statutory financial statements of \$53,000 in 2005 and \$101,000 in 2004 and included such amounts in reinsurance recoveries in the statutory-based statements of income.

The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting firm of Deloitte & Touche LLP (D&T), in accordance with 211 CMR § 43.14. The CPA Firm issued an unqualified opinion on the December 31, 2005 audited financial statements. The Company is also subject to review by an internal audit department.

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Corporation's Independent Certified Public Accountants (D&T). No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA Firm's filings with the Division.

The NAIC provides a questionnaire covering the evaluation of the controls in the EDP systems environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Technology Advisory Services (ITAS) team, which evaluated the adequacy of the IT systems controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2005 Annual Statement. No material exceptions were noted.

SUBSEQUENT EVENTS

There were no events of material significance involving the Company subsequent to December 31, 2005.

COMMITMENTS AND CONTINGENCIES

The Company is involved in certain legal matters arising in the normal course of business. However, based on the facts of each matter and considering the opinion of legal counsel, management does not anticipate that the outcome of such matters will have a significant impact on the Company's financial position.

FINANCIAL STATEMENTS

The Financial Statements section includes the following:	<u>Page</u>
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The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2005.

For Information Purposes Only

**Commonwealth of Massachusetts Division of Insurance
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**ConnectiCare of Massachusetts, Inc.
Statutory Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2005**

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>			
Bonds	\$ 8,158,286	\$ -	\$ 8,158,286
Cash, cash equivalents and short-term investments	314,294	-	314,294
Subtotals, cash and invested assets	8,472,580	-	8,472,580
Investment income due and accrued	59,537	-	59,537
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	90,254	-	90,254
Reinsurance:			
Amounts recoverable from reinsurers	81,006	-	81,006
Net deferred tax asset	51,261	-	51,261
Health care and other amounts receivable	71,875	-	71,875
Other than invested assets	8,865	-	8,865
Total Assets	\$ 8,835,378	\$ -	\$ 8,835,378
<u>LIABILITIES</u>			
Claims unpaid	\$ 2,085,165	\$ -	\$ 2,085,165
Accrued medical incentive pool and bonus amounts	20,731	-	20,731
Unpaid claims adjustment expenses	49,330	-	49,330
Premiums received in advance	362,615	-	362,615
General expenses due or accrued	2,894	-	2,894
Current federal and foreign income tax payable and interest thereon	669,158	-	669,158
Amounts due to parent, subsidiaries and affiliates	206,722	-	206,722
Total Liabilities	\$ 3,396,615	\$ -	\$ 3,396,615
<u>CAPITAL AND SURPLUS</u>			
Common capital stock	\$ 1,000	\$ -	\$ 1,000
Gross paid in and contributed surplus	1,683,095	-	1,683,095
Unassigned funds (surplus)	3,754,668	-	3,754,668
Total Capital and Surplus	\$ 5,438,763	\$ -	\$ 5,438,763
Total Liabilities, Capital and Surplus	\$ 8,835,378	\$ -	\$ 8,835,378

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**ConnectiCare of Massachusetts, Inc.
Analysis of Assets Exhibit
As of December 31, 2005**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>					
Bonds	\$ 8,158,286	\$ -	\$ 8,158,286	\$ -	\$ 8,158,286
Cash, cash equivalents and short-term investments	314,294	-	314,294	-	314,294
Subtotals, cash and invested assets	8,472,580	-	8,472,580	-	8,472,580
Investment income due and accrued	59,537	-	59,537	-	59,537
Premiums and considerations:					
Uncollected premiums and agents' balances in the course of collection	101,902	11,648	90,254	-	90,254
Reinsurance:					
Amounts recoverable from reinsurers	81,006	-	81,006	-	81,006
Net deferred tax asset	51,261	-	51,261	-	51,261
Health care and other amounts receivable	89,596	17,721	71,875	-	71,875
Other assets nonadmitted	8,865	-	8,865	-	8,865
Total Assets	\$ 8,864,747	\$ 29,369	\$ 8,835,378	\$ -	\$ 8,835,378

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**ConnectiCare of Massachusetts, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2005**

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Member Months	105,531	-	105,531
Net premium income	\$ 28,971,485	\$ -	\$ 28,971,485
Total revenues	28,971,485	-	28,971,485
Hospital and Medical:			
Hospital/medical benefits	21,690,952	-	21,690,952
Subtotal	21,690,952	-	21,690,952
Less:			-
Net reinsurance recoveries	81,006	-	81,006
Total medical and hospital	21,609,946	-	21,609,946
Claims adjustment expenses	842,144	-	842,144
General administrative expenses	4,632,162	-	4,632,162
Total underwriting deductions	27,084,252	-	27,084,252
Net underwriting gain	1,887,233	-	1,887,233
Net investment income earned	299,544	-	299,544
Net realized capital (losses)	(24,735)	-	(24,735)
Net investment gains	274,809	-	274,809
Net income before federal income taxes	2,162,042	-	2,162,042
Federal and foreign income taxes incurred	731,060	-	731,060
Net Income	\$ 1,430,982	\$ -	\$ 1,430,982

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CONNECTICARE OF MASSACHUSETTS, INC.

ConnectiCare of Massachusetts, Inc.
Capital & Surplus
For the Year Ended December 31, 2005

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2004	\$ 4,010,140	\$ -	\$ 4,010,140
Net income or (loss)	1,430,982	-	1,430,982
Change in net deferred income tax	(44,295)	-	(44,295)
Change in nonadmitted assets	41,936		41,936
Net change in capital and surplus	1,428,623	-	1,428,623
Capital and Surplus, December 31, 2005	<u>\$ 5,438,763</u>	<u>\$ -</u>	<u>\$ 5,438,763</u>

For Information Purposes Only

ACKNOWLEDGMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of ConnectiCare of Massachusetts, Inc. during the examination.

The assistance rendered by KPMG LLP who participated in this examination is acknowledged.

John Smallwood, CFE
Chief Examiner & Examiner in Charge (EIC)
Commonwealth of Massachusetts
Division of Insurance
Boston, MA

For Information Purposes Only