



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

REPORT OF EXAMINATION OF THE
FALLON COMMUNITY HEALTH PLAN, INC.

Worcester, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 4741

NAIC COMPANY CODE 95541

EMPLOYERS ID NUMBER 23-7442369

FALLON COMMUNITY HEALTH PLAN, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

MIKE KENNEALY
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

EDWARD A. PALLESCHI
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 28, 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

FALLON COMMUNITY HEALTH PLAN, INC.

at its home office located at 10 Chestnut Street, Worcester, Massachusetts, 01608-2810. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Fallon Community Health Plan, Inc. ("Company" or "FCHP") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was 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, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2015 through 2017. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. The Company is required to comply with the Model Audit Rule ("MAR"). All control work papers associated with MAR compliance have been reviewed as a source of information and were tested and leveraged as deemed appropriate and effective. KPMG LLP ("KPMG") was engaged to perform certain agreed upon procedures, which are in compliance with the NAIC *Financial Condition Examiners' Handbook*. KPMG's Health 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, 2017. KPMG's Information Technology Advisory Services personnel were engaged to review the adequacy and effectiveness of the Information Technology systems controls to determine the level of reliance to be placed on the information generated by the data processing systems. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

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

Fallon Community Health Plan, Inc. is a not-for-profit health maintenance organization domiciled in Massachusetts. The Company has a wholly owned subsidiary, Fallon Health and Life Assurance Company, Inc. ("FHLAC"), which is a Massachusetts stock life and health insurance company focusing on indemnity health insurance, preferred provider organization ("PPO") products and administrative services only ("ASO") arrangements.

FHLAC has a wholly owned subsidiary, UltraBenefits, Inc., ("UltraBenefits") a third party administrator in Massachusetts. UltraBenefits provides medical, dental, and disability claim processing, as well as claims management services, premium and fee-billing services and administration of Flexible Spending Accounts, Health Reimbursement Accounts, and COBRA.

On September 30, 2015, UltraBenefits acquired 100% ownership of GISC Insurance Agency, Inc., a licensed insurance agency, and Group Insurance Service Center, Inc., a licensed third party administrator. Both Companies are for profit entities located in Massachusetts.

Effective June 20, 2013, FCHP became the sole owner of Fallon Total Care, LLC. Fallon Total Care was originally formed as a joint venture with Magellan Health Services to provide integrated health care to individuals age 21 to 64 years old who are dually-eligible for Medicare and Medicaid in Massachusetts. Effective September 30, 2015, FCHP and Fallon Total Care ended its participation in the dual eligible program.

FCHP and FCHP New York, LLC, a New York Limited Liability Company organized for charitable purposes, has partnered with Weinberg Campus, a New York based 501(c) (3) corporation to capitalize on their respective experience and expertise to provide high-quality healthcare to the most vulnerable residents of western New York State through government health insurance programs. Specifically this joint venture, approved by the state of New York for June 1, 2014, seeks to expand the Medicaid Long Term Care services provided in Erie County in western New York State and introduce a Special Needs Medicare Advantage plan serving dual eligible individuals as well as a Program of All Inclusive Care for the Elderly (PACE) program. On January 1, 2015, the Internal Revenue Service approved the name change from Total Aging in Place to Fallon Health Weinberg, Inc. Fallon Health Weinberg departed from the Special Needs Plan program in 2018. FCHP New York owns 70% of Fallon Health Weinberg, Inc.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws the Company shall have a Board of Directors ("the Board") which shall consist of not less than five nor more than thirteen members. The President of the Company shall serve as an *ex officio* member with one vote and shall be counted as a member for the purpose of determining the total number of Directors. The terms of the Directors shall be staggered with approximately one-third of the total elected at each annual meeting, and each Director shall be elected to a three year term. At any meeting of the Directors, a majority of Directors shall constitute a quorum and when present, a majority vote shall decide any question brought before the meeting.

At December 31, 2017, the Company's Board of Directors consisted of the following thirteen Directors, which include three new Directors appointed to the Board in October, 2017.

<u>Name of Director</u>	<u>Title</u>	<u>Business Affiliation</u>
James R. Buonomo	Director	Retired
Richard P. Burke	<i>Ex officio</i>	President and Chief Executive Officer, Fallon Community Health Plan
B. John Dill	Clerk	President, The Colebrook Group
David Friend, M.D.	Director	Managing Director, BDO Center for Health Care Excellence & Innovation
David W. Hillis	Chair	Chairman and Chief Executive Officer of AdCare, Inc.
Karin J. Landry	Director	Managing Partner, Spring Consulting Group
Frederick M. Misilo, Jr.	Vice Chair	Fletcher Tilton, P. C.
Janet S. Rico	Director	Assistant Dean, Nursing Graduate Programs, Northeastern University
W. Thomas Spencer, Jr.	Director	Managing Partner, Spencer Financial, LLC
Joseph N. Stolberg	Director	Managing Partner & co-Founder, Stolberg, Ebbling & Blanchette, LLP
Peter Straley	Director	Retired
Ann K. Tripp	Treasurer	Chief Investment Officer, Hanover Insurance and President, Opus Investment Management, Inc.
Lynda M. Young, M.D.	Director	Pediatrician, UMass Memorial Health Care

Committees of the Board of Directors

In accordance with the bylaws, the Board of Directors shall have six standing committees including an Executive Committee; Audit & Compliance Committee; Finance Committee; Governing and Nominating Committee; Executive Evaluation and Compensation Committee; and, the Service and Quality Oversight Committee. The Executive Committee shall consist of five to seven Directors. All other committees, with the exception of the Service and Quality Oversight

Fallon Community Health Plan, Inc.

Committee, shall consist of no more than five Directors. The Service and Quality Oversight Committee shall consist of at least one Director. Each Committee operates under an approved Committee Charter and quorum and voting requirements shall be consistent with those applicable to the full Board.

The Board may appoint from within or without its own membership any committee it considers necessary to carry out the functions of the Company.

The following illustrates committee membership as of December 31, 2017.

Executive Committee

David W. Hillis, Chair
Richard P. Burke
B. John Dill
Frederick M. Misilo Jr.
Ann K. Tripp
Linda M. Young, M.D.

Finance Committee

Ann K. Tripp, Chair
James R. Buonomo
Richard P. Burke, *ex officio*
Karin J. Landry
Joseph N. Stolberg
Peter Straley

Executive Evaluation and Compensation Committee

Frederick M. Misilo Jr., Chair
Richard P. Burke, *ex officio*
B. John Dill
Joseph N. Stolberg
Ann K. Tripp

Audit and Compliance Committee

James R. Buonomo, Chair
B. John Dill
David Friend, M.D.
Karin J. Landry

Governance and Nominating Committee

B. John Dill, Chair
Richard P. Burke
Davis Friend, M.D.
Janet S. Rico
Lynda M. Young, M.D.

Service and Quality Oversight Committee

Lynda M. Young, M.D., Chair
Janet S. Rico
Jerry Gurwitz, M.D.
Bruce Weinstein, M.D.
Michael Sheehy, M.D.

Officers

FCHP may have as its officers a Chair of the Board, a Vice Chair, a President and Chief Executive Officer, a Treasurer, a Clerk, and may have such other officers, including but not limited to Division Presidents and Executive Vice Presidents, as the Board shall appoint. The Chair of the Board, the Vice Chair, the Treasurer, and the Clerk shall be elected annually by the Board at the annual meeting after the Directors' election.

Fallon Community Health Plan, Inc.

The Company's officers and their respective titles at December 31, 2017 were as follows:

<u>Officer</u>	<u>Title</u>
David W. Hillis	Chairman of the Board
Frederick M. Misilo Jr.	Vice Chair
B. John Dill	Clerk
Ann K. Tripp	Treasurer
Richard P. Burke	President and Chief Executive Officer
Thomas Ebert, M.D.	Chief Medical Officer
Kevin Grozio	Senior VP and Chief Financial Officer
Christine Cassidy	Senior VP and Chief Communications Officer
David Przesiek	Senior VP and Chief Sales Officer
Eric Hall	Senior VP, Provider Management, Strategy and Engagement
Jill Lebow	Senior VP and Chief Human Resources Officer
James Gentile	Senior VP and Chief Compliance Officer
Emily West	Senior VP and Chief Operating Officer

Holding Company

As stated in the Insurance Holding Company System Form B and Form C 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 Law, Chapter 176G, Section 28, and Regulation 211 CMR 7.00. FCHP is the "ultimate controlling person" of the Holding Company System.

Transactions and Agreements with Subsidiaries and Affiliates

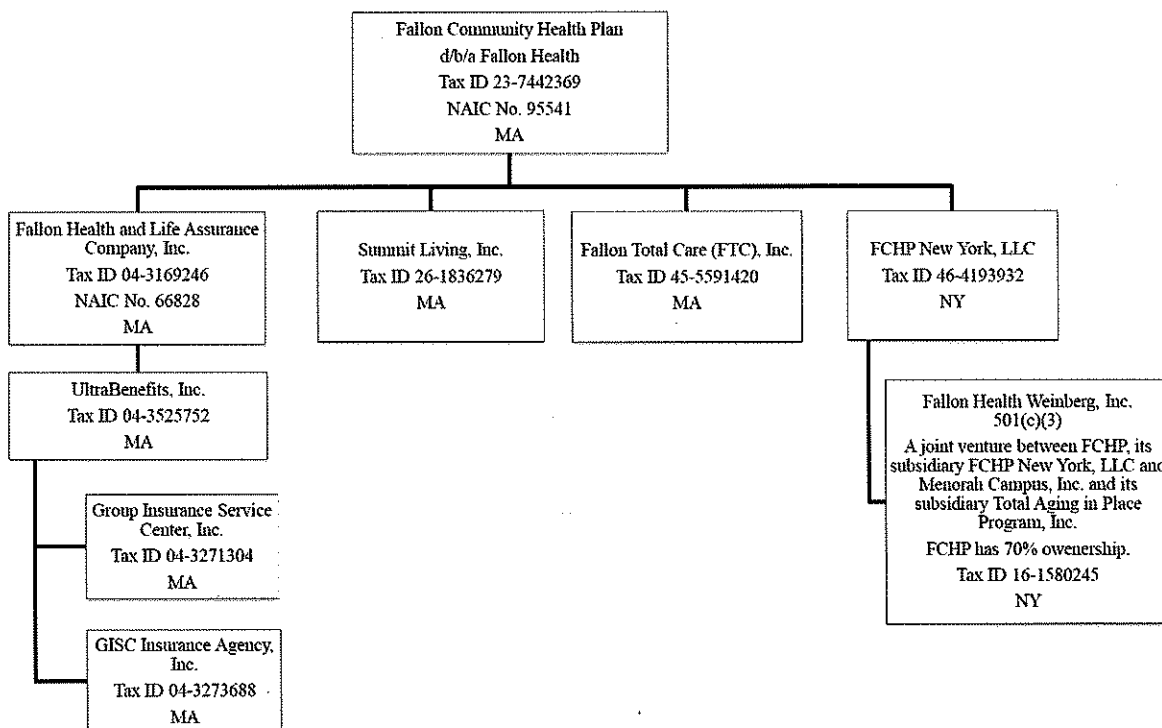
FHLAC is a wholly-owned subsidiary of FCHP. FHLAC has no employees and FCHP accordingly provides all administrative services to FHLAC, including premium collection, claims processing and operational management in return for an administrative fee based on a percentage of premium that is included as an offset to expense. Settlement of intercompany balances takes place monthly.

According to its holding company filings, during the course of the examination the Company made capital contributions to the FHLAC of \$4,000,000, \$800,000, and \$13,200,000 in 2017, 2016, and 2015 respectively. The Company made capital contributions to Fallon Health Weinberg of \$6,350,000, \$3,626,000, and \$3,300,000 in 2017, 2016, and 2015 respectively. The Company made capital contributions to Fallon Total Care of \$2,050,000 in 2016. In 2017, Fallon Total Care made a return of capital to the Company in the amount of \$13,000,000.

Fallon Community Health Plan, Inc.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2017 is illustrated below:



TERRITORY AND PLAN OF OPERATION

The Company is headquartered in Worcester, Massachusetts and only licensed to transact business in Massachusetts. FCHP historically focused on its operations in Worcester County but has since expanded its service area to most of Massachusetts. FCHP's Direct Care service area includes communities primarily in central and eastern Massachusetts excluding Cape Cod. FCHP's Select Care service area encompasses communities statewide, excluding Cape Cod, Martha's Vineyard, and Nantucket.

The Company does have provider arrangements in place to serve policyholders living in other contiguous states including Connecticut, New Hampshire, New York, and Rhode Island.

Treatment of Policyholders

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

REINSURANCE

FCHP has in place an HMO specific excess of loss reinsurance treaty for covered expenses against excessive claims utilization. Under its reinsurance policy, the Company is reimbursed for 90% of all claims over the policy deductible, which is \$1,000,000. The maximum recoverable per covered person per agreement term is \$10,000,000. The reimbursement percentage for covered expenses if the complete claim is received by July 1, 2019 is 90% and if not completed by July 1, 2019, the recoverable amount is 50%. The treaty has an experience refund clause contingent on a number of financial measurements.

FINANCIAL STATEMENTS

The following financial statements have been prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ended December 31, 2017. These financial statements are the responsibility of Company management.

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

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

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

Fallon Community Health Plan, Inc.

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

	Per Annual Statement
Assets	
Bonds	\$ 166,154,190
Common stocks	123,119,544
Cash, cash equivalents and short-term investments	68,230,519
Other invested assets	2,550,640
Subtotals, cash and invested assets	360,054,893
Investment income due and accrued	975,606
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	9,848,521
Reinsurance:	
Amounts recoverable from reinsurers	168,612
Furniture and equipment including health care delivery assets	321,613
Receivable from parent, subsidiaries and affiliates	2,704,626
Healthcare and other amounts receivable	9,570,592
Total Assets	<u><u>\$ 383,644,463</u></u>
Liabilities, Capital and Surplus	
Claims unpaid	\$ 147,090,730
Accrued medical incentive pool and bonus amounts	9,626,749
Unpaid claims adjustment expense	1,664,342
Aggregate health policy reserves	9,791,348
Premiums received in advance	15,641,149
General expenses due or accrued	7,721,778
Amounts due to parent, subsidiaries and affiliates	5,941,180
Payable for securities	1,866,047
Aggregate write-ins for other liabilities	21,181,869
Total liabilities	220,525,192
Aggregate write-ins for special surplus funds	7,750,116
Unassigned funds (surplus)	155,369,155
Total capital and surplus	163,119,271
Total liabilities, capital and surplus	<u><u>\$ 383,644,463</u></u>

Fallon Community Health Plan, Inc.

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

	<u>As Reported by the Company</u>
Member Months	<u>1,675,772</u>
Net premium income	<u>\$ 1,242,226,460</u>
Total revenues	1,242,226,460
Hospital and Medical:	
Hospital/medical benefits	903,904,160
Other professional services	89,882,072
Outside referrals	3,706,878
Emergency room and out-of-area	2,695,911
Prescription drugs	117,420,052
Aggregate write-ins for other hospital and medical	2,256,409
Incentive pool, withhold adjustments and bonus amounts	<u>3,430,929</u>
Subtotal	1,123,296,411
Less:	
Net reinsurance recoveries	<u>119,473</u>
Total hospital and medical	1,123,176,938
Claims adjustment expenses	13,812,046
General administrative expenses	103,061,074
Increase in reserves for life and accident and health contracts	<u>(3,500,000)</u>
Total underwriting deductions	1,236,550,058
Net underwriting gain (loss)	5,676,402
Net investment income earned	6,048,621
Net realized capital gains (losses)	<u>6,151,345</u>
Net investment gains (losses)	12,199,966
Aggregate write-ins for other income or expenses	(21,149)
Net income or (loss) after capital gains tax and before all other federal income taxes	17,855,219
Federal income taxes incurred	<u>0</u>
Net Income (loss)	<u><u>\$ 17,855,219</u></u>
Capital and Surplus Account	
Capital and surplus prior reporting year	145,768,734
Net income or (loss)	17,855,219
Change in net unrealized capital gains	(3,974,701)
Change in nonadmitted assets	<u>3,470,019</u>
Net change in capital and surplus	<u>17,350,537</u>
Capital and surplus end of reporting year	<u><u>\$ 163,119,271</u></u>

Fallon Community Health Plan, Inc.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and surplus prior reporting year	\$ 145,768,734	\$ 151,346,947	\$ 168,437,584
Net income or (loss)	17,855,219	(21,288,298)	8,801,804
Change in net unrealized capital gains (losses)	(3,974,701)	6,620,099	(32,500,993)
Change in nonadmitted assets	<u>3,470,019</u>	<u>9,089,986</u>	<u>6,608,552</u>
Net change in capital and surplus	<u>17,350,537</u>	<u>(5,578,213)</u>	<u>(17,090,637)</u>
Capital and surplus end of reporting year	<u><u>\$ 163,119,271</u></u>	<u><u>\$ 145,768,734</u></u>	<u><u>\$ 151,346,947</u></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 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 historical 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 estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities (“UCL”) as of December 31, 2017 for the key products/lines of business. KPMG performed calculations using historical claims data displaying claims paid by incurred month. Payments through June 30, 2018 were included providing six months of hindsight. KPMG developed completion factors for the projection of ultimate incurred claims using historical payment patterns and actuarial judgment. Based on this analysis, KPMG developed a range of estimated incurred claims based on its view of a range of assumptions that could be developed from a reasonable analysis of the factors that impact the Company’s reserves, such as claim trend and speed of claim completion. KPMG arrived at a range of estimates for the UCL by subtracting the claims paid-to-date from its range of incurred claims estimates. The results of the range tested are summarized below.

<u>Fallon Community Health Plan, Inc.</u>					
(000’s omitted)					
<u>KPMG Estimates</u>					
	<u>Low</u>	<u>Mid</u> <u>Estimate</u>	<u>High</u>	<u>Total</u> <u>Carried</u>	<u>Sufficiency</u> <u>Vs. KPMG</u> <u>Mid Estimate</u>
Unpaid Claim Liabilities	\$139,640	\$144,288	\$150,119	\$147,348	\$3,060

SUBSEQUENT EVENTS

The Company is subject to an annual fee under section 9010 of the Affordable Care Act (“ACA”). This annual fee will 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

Fallon Community Health Plan, Inc.

insurance for any U.S. health risk that is written for the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2017, the Company has written health insurance subject to the ACA assessment, did conduct health insurance business in 2018 and estimated their portion of the fee payable on September 30, 2018 to be \$7,750,116. The Company paid an adjusted fee in 2018 of \$7,582,404. The Company is again subject to this fee in 2018 payable in 2019, however the fee has been suspended for one year according to legislation H.R. 195, Division D – Suspension of Certain Health-Related Taxes, § 4003. As a result there is no annual health insurance industry fee payable and due on September 30, 2019.

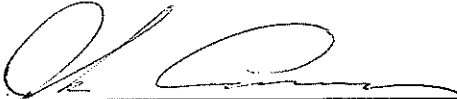
SUMMARY OF RECOMMENDATIONS

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.

Fallon Community Health Plan, Inc.

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

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



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance