



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

REPORT OF EXAMINATION OF THE
FALLON HEALTH AND LIFE ASSURANCE COMPANY, INC.

Worcester, Massachusetts
As of December 31, 2020

NAIC GROUP CODE 4741
NAIC COMPANY CODE 66828
EMPLOYERS ID NUMBER 04-3169246

FALLON HEALTH AND LIFE ASSURANCE COMPANY, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 31, 2022

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 175, Section 4, an examination has been made of the financial condition and affairs of

FALLON HEALTH AND LIFE ASSURANCE COMPANY, INC.

The Company's home office is located at 10 Chestnut Street, Worcester, Massachusetts, 01608-2810. The examination was conducted remotely. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Fallon Health and Life Assurance Company, Inc. (“Company” or “FHLAC”) was last examined as of December 31, 2017 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, 2018 through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliate in the Fallon Group was also examined and a separate Report of Examination has been issued:

Fallon Community Health Plan, Inc.

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 175, Section 4, 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 2018 through 2020. 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, 2020. 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

FHLAC is a Massachusetts stock health and life insurance company formed in 1992 and commenced operations in 1993. FHLAC is a wholly-owned subsidiary of Fallon Community Health Plan, Inc. ("FCHP") and focuses on Medicare Supplement and Preferred Provider Organization ("PPO") health insurance products and administrative services only ("ASO") type 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 and located in Massachusetts. On November 30, 2020 the Secretary of the Commonwealth of Massachusetts approved the Articles of Voluntary Dissolution of GISC, effective November 30, 2020, which was preceded by a unanimous written consent of the GISC Board of Directors and approval by its sole shareholder, UltraBenefits, Inc. A liquidating distribution is expected to occur in 2022.

FHCP made a business decision to focus on its government sponsored programs which is a direction that is more strongly aligned with FHCP's mission and vision. As a result, FHCP decided to discontinue selling its commercial products in the State of Massachusetts as of April 1, 2021. These actions will result in the complete withdrawal from the commercial market of FCHP's Select Care, Direct Care HMO products and FHLAC's Preferred Care PPO, Medicare Plus Freedom (group retiree Medicare Supplement) products and all administrative services to self-funded groups by the end of 2022. FCHP will continue to sell its Community Care product on the Connector, provided it receives plan approval, and FHLAC will continue to market its Medicare Plus Supplement (individual Medicare Supplement) product.

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, 2020, the Company’s Board of Directors consisted of the following seven Directors, which include three new Directors appointed to the Board during the period under examination.

<u>Name of Director</u>	<u>Title</u>	<u>Business Affiliation</u>
Frederick M. Misilo, Jr. Richard P. Burke	Chair <i>Ex officio</i>	Fletcher Tilton, P. C. President and Chief Executive Officer, Fallon Community Health Plan
B. John Dill James R. Buonomo	Clerk	President, The Colebrook Group Retired
Ann K. Tripp	Treasurer	Chief Investment Officer, Hanover Insurance and President, Opus Investment Management, Inc.
Deborah C. Enos Janet S. Rico	Director Director	Retired Assistant Dean, Nursing Graduate Programs, Northeastern University

Committees of the Board of Directors

The Company’s bylaws allow that the Board of Directors may appoint from within or without its own membership any standing or other committee it considers necessary to carry out the functions of the Corporation. All such committees shall have such duties as the Directors may prescribe and shall be subject to the general supervision of the Board and requirements of applicable law. Notwithstanding the foregoing, any committee that is delegated the power of the Board to act on behalf of the Corporation shall be comprised solely of Directors.

As of December 31, 2020, there were no standing committees of the Board.

Fallon Health and Life Assurance Company, Inc.

Officers

FHLAC 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 as the Board in its discretion 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.

The Company's officers and their respective titles at December 31, 2020 were as follows:

<u>Officer</u>	<u>Title</u>
Richard P. Burke	President and Chief Executive Officer
Frederick M. Misilo, Jr.	Chairman of the Board
James Buonomo	Clerk
Ann K. Tripp	Treasurer
Carolyn Langer	Senior VP and Chief Medical Officer
Todd Bailey	Senior VP and Chief Financial Officer
Christine Cassidy	Senior VP and Chief Communications Officer
Mary Ritter	Senior VP and Chief Strategy and Government Programs Officer
Jill Green 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.

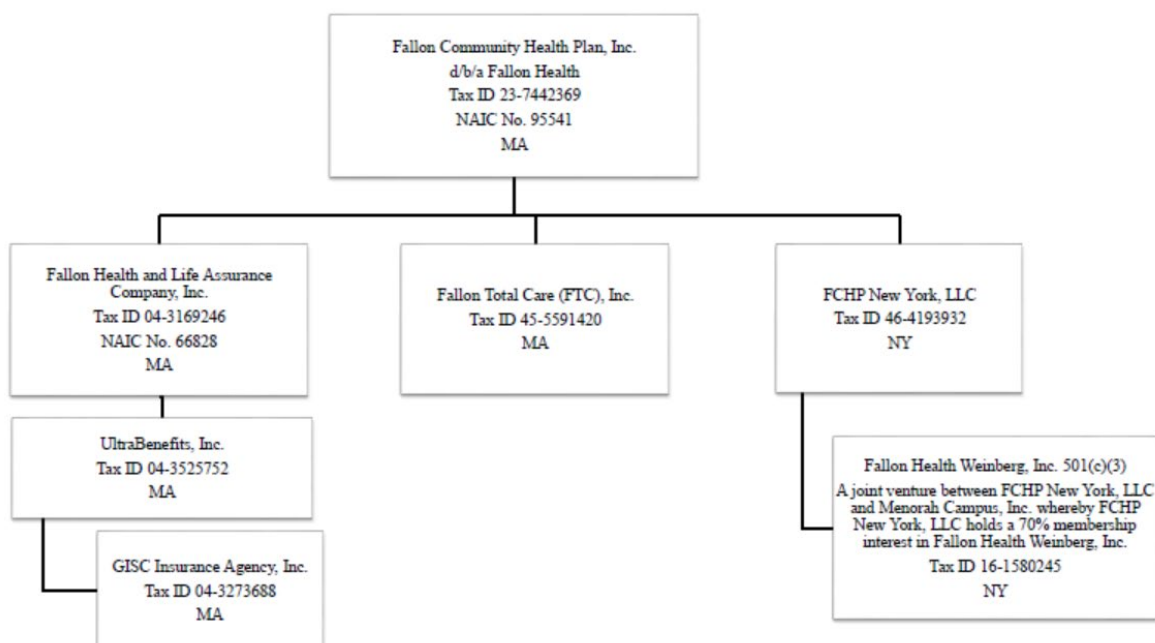
During the period covered by the examination, the Company has received capital and surplus contributions from FCHP as follows:

Fallon Health and Life Assurance Company, Inc.

<u>Year</u>	<u>Amount</u>
2020	\$ 6,100,000
2019	11,100,000
2018	<u>5,000,000</u>
Total	<u>\$22,200,000</u>

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2020 is illustrated below:



TERRITORY AND PLAN OF OPERATION

FHLAC is headquartered in Worcester, Massachusetts and is only licensed to transact business in Massachusetts. As a wholly owned subsidiary of FCHP, the Company operates as the legal entity conducting ASO and third-party administrative services. The Company is also the legal entity underwriting the group's Medicare Supplement and PPO insurance plans.

REINSURANCE

FCHP has in place an HMO specific excess of loss reinsurance treaty for covered expenses against excessive claims utilization. The maximum recoverable per covered person per agreement term is unlimited. Under its reinsurance policy, FCHP is reimbursed 90% and 40% for Large Group and Medicare members and Small Group and Individual members, respectively, of all claims over the policy deductible, which is \$1,000,000. The Company is a named insured on this policy.

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, 2020. These financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital, and Surplus as of December 31, 2020

Statement of Revenue, Expenses, Capital, and Surplus for the Year Ended December 31, 2020

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2020

Fallon Health and Life Assurance Company, Inc.

Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2020

	Per Annual Statement
Assets	
Cash, cash equivalents and short-term investments	\$ 21,543,438
Subtotals, cash and invested assets	<u>21,543,438</u>
Premiums and considerations:	
Uncollected premiums and agents' balances	668,136
Accrued retrospective premiums	70,524
Reinsurance:	
Amounts recoverable from reinsurers	36,332
Amounts receivable relating to uninsured plans	1,634,419
Health care and other amounts receivable	423,258
Total assets	\$ <u>24,376,107</u>
Liabilities	
Claims unpaid	\$ 4,584,469
Accrued medical incentive pool and bonus amounts	9,384
Unpaid claims adjustment expenses	126,329
Aggregate health policy reserves	4,980,000
Premiums received in advance	393,729
General expenses due or accrued	207,424
Amounts due to parent, subsidiaries and affiliates	210,897
Liability for amounts held under uninsured plans	3,083,909
Aggregate write-ins for other liabilities	584,850
Total liabilities	<u>14,180,991</u>
Common capital stock	400,000
Gross paid in and contributed surplus	121,841,000
Unassigned funds (surplus)	(112,045,884)
Total capital and surplus	<u>10,195,116</u>
Total liabilities, capital, and surplus	\$ <u>24,376,107</u>

Fallon Health and Life Assurance Company, Inc.

Statement of Income
For the Year Ended December 31, 2020

	Per Annual Statement
Member Months	<u>57,462</u>
Net premium income	\$ <u>22,331,806</u>
Total revenues	<u><u>22,331,806</u></u>
Deductions:	
Hospital/medical benefits	18,701,699
Other professional services	389,569
Prescription drugs	5,197,678
Aggregate write-ins for other hospital and medical	205,590
Incentive pool, withhold adjustments and bonus amounts	<u>9,211</u>
Subtotal	<u>24,503,747</u>
Net reinsurance recoveries	<u>20,348</u>
Total hospital and medical	<u>24,483,399</u>
Claims adjustment expenses	180,384
General administrative expenses	1,113,716
Increase in reserves for life and accident and health contracts	<u>(1,620,000)</u>
Total underwriting deductions	<u>24,157,499</u>
Net underwriting gain or loss	(1,825,693)
Net investment income earned	8,047
Net realized capital gains (losses) less capital gains tax	<u>-</u>
Net investment gain	<u>8,047</u>
Net income, after capital gains tax and before all other federal income taxes	<u>(1,817,646)</u>
Federal and foreign income taxes incurred	<u>-</u>
Net income	\$ <u><u>(1,817,646)</u></u>

Fallon Health and Life Assurance Company, Inc.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital and surplus prior year	\$ 6,006,985	\$ 6,847,242	\$ 6,463,005
Net income	(1,817,646)	(12,691,756)	(5,481,381)
Change in net unrealized capital gains	(2,985,073)	1,750,795	1,208,237
Change in nonadmitted assets	2,890,851	(999,296)	(342,619)
Surplus Adjustments: Paid in	<u>6,100,000</u>	<u>11,100,000</u>	<u>5,000,000</u>
Net change in capital and surplus	<u>4,188,132</u>	<u>(840,257)</u>	<u>384,237</u>
Capital and surplus, December 31	<u>\$ 10,195,117</u>	<u>\$ 6,006,985</u>	<u>\$ 6,847,242</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, 2020 for the key products/lines of business. KPMG performed calculations using historical claims data displaying claims paid by incurred month. Payments through June 30, 2021 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

Fallon Health and Life Assurance Company, Inc.

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>Sufficiency Vs. KPMG Mid Estimate</u>
	<u>Low</u>	<u>Mid Estimate</u>	<u>High</u>	<u>Total Carried</u>	
Unpaid Claim Liabilities	\$3,915	\$4,066	\$4,139	\$4,584	\$518

SUBSEQUENT EVENTS

As noted above, the Company made a business decision to focus on its government sponsored programs which is a direction that is more strongly aligned with Fallon's mission and vision. As a result, the Company decided to discontinue selling its commercial products in the State of Massachusetts as of April 1, 2021. These actions will result in the complete withdrawal from the commercial market of FCHP's Select Care, Direct Care HMO products and FHLAC's Preferred Care PPO, Medicare Plus Freedom (group retiree Medicare Supplement) products and all administrative services to self-funded groups by the end of 2022. FCHP will continue to sell its Community Care product on the Connector, provided it receives plan approval, and FHLAC will continue to market its Medicare Plus Supplement (individual Medicare Supplement) product.

The Company has transitioned to Optum PBM effective January 1, 2022. Financial forecasts anticipate significant savings resulting from this change. The achievement of those forecast depends on success of implementation of Optum PBM. The implementation also has operational, reputational and member experience risks.

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 the 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 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