



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, 2017

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

FALLON HEALTH AND LIFE ASSURANCE COMPANY, 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 Health and Life Assurance Company, Inc. ("Company" or "FHLAC") 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 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 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

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.

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 six 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>
David W. Hillis	Chair	Chairman and Chief Executive Officer of AdCare, Inc.
Richard P. Burke	<i>Ex officio</i>	President and Chief Executive Officer, Fallon Community Health Plan

Fallon Health and Life Assurance Company, Inc.

B. John Dill	Clerk	President, The Colebrook Group
Frederick M. Misilo, Jr.	Vice-Chair	Fletcher Tilton, P. C.
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

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, 2017, there were no standing committees of the Board.

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, 2017 were as follows:

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

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

Fallon Health and Life Assurance Company, Inc.

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

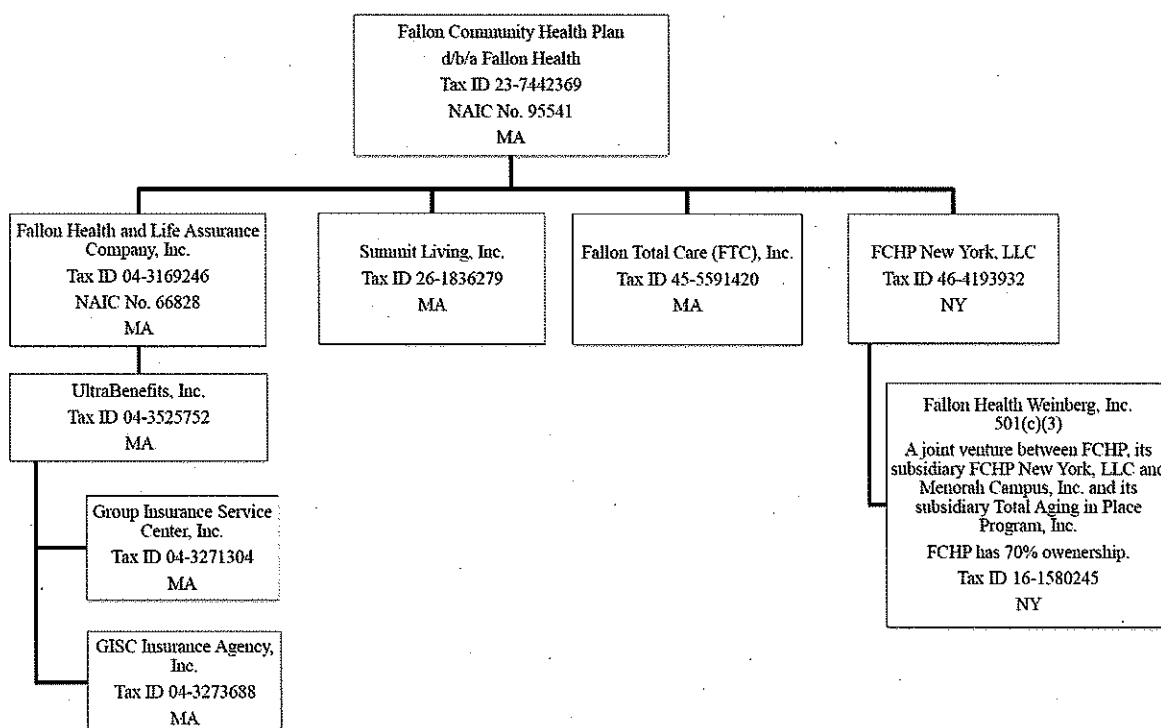
FHLAC is a wholly-owned subsidiary of FCHP. FHLAC has no employees and FCHP accordingly provides all administrative services to FHLAC, including premium collection, claims processing and operational management in return for an administrative fee based on a percentage of premium that is included as an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

<u>Year</u>	<u>Amount</u>
2017	\$ 4,000,000
2016	800,000
2015	<u>13,200,000</u>
Total	<u>\$18,000,000</u>

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

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.

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. 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, 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 Health and Life Assurance Company, Inc.

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

	Per Annual Statement
Assets	
Cash, cash equivalents and short-term investments	\$ 17,466,780
Subtotals, cash and invested assets	17,466,780
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	405,017
Accrued retrospective premiums and contracts subject to redetermination	509,192
Reinsurance:	
Amounts recoverable from reinsurers	10,505
Amounts receivable relating to uninsured plans	1,838,782
Receivable from parent, subsidiaries and affiliates	3,524,692
Healthcare and other amounts receivable	210,116
Total Assets	<u>\$ 23,965,084</u>
Liabilities, Capital and Surplus	
Claims unpaid	\$ 6,025,623
Accrued medical incentive pool and bonus amounts	9,526
Unpaid claims adjustment expense	155,389
Aggregate health policy reserves	2,500,000
Premiums received in advance	666,916
General expenses due or accrued	233,409
Amounts due to parent, subsidiaries and affiliates	2,401,106
Liability for amounts held under uninsured plans	5,510,110
Aggregate write-ins for other liabilities	0
Total liabilities	17,502,079
Aggregate write-ins for special surplus funds	393,916
Common capital stock	400,000
Gross paid in and contributed surplus	99,641,000
Unassigned funds (surplus)	(93,971,911)
Total capital and surplus	6,463,005
Total liabilities, capital and surplus	<u>\$ 23,965,084</u>

Fallon Health and Life Assurance Company, Inc.

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

	As Reported by the Company
Member Months	<u>72,535</u>
Net premium income	\$ 28,711,134
Total revenues	<u>28,711,134</u>
Hospital and Medical:	
Hospital/medical benefits	25,033,817
Other professional services	375,898
Outside referrals	0
Emergency room and out-of-area	0
Prescription drugs	4,382,588
Aggregate write-ins for other hospital and medical	336,974
Incentive pool, withhold adjustments and bonus amounts	12,816
Subtotal	<u>30,142,093</u>
Less:	
Net reinsurance recoveries	<u>62,739</u>
Total hospital and medical	30,079,354
Claims adjustment expenses	238,529
General administrative expenses	3,144,908
Increase in reserves for life and accident and health contracts	1,350,000
Total underwriting deductions	<u>34,812,791</u>
Net underwriting gain (loss)	(6,101,657)
Net investment income earned	16,297
Net realized capital gains (losses)	<u>0</u>
Net investment gains (losses)	16,297
Aggregate write-ins for other income or expenses	0
Net income or (loss) after capital gains tax and before all other federal income taxes	(6,085,360)
Federal income taxes incurred	<u>0</u>
Net Income (loss)	<u><u>(\$6,085,360)</u></u>
Capital and Surplus Account	
Capital and surplus prior reporting year	8,364,898
Net income or (loss)	(6,085,360)
Change in net unrealized capital gains	1,125,696
Change in nonadmitted assets	(942,229)
Surplus Adjustments: Paid in	4,000,000
Net change in capital and surplus	<u>(1,901,893)</u>
Capital and surplus end of reporting year	<u><u>\$ 6,463,005</u></u>

Fallon Health and Life Assurance Company, 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	\$ 8,364,898	\$ 5,720,383	\$ 6,416,328
Net income or (loss)	(6,085,360)	1,838,466	(11,044,938)
Change in net unrealized capital gains (losses)	1,125,696	559,751	317,813
Change in nonadmitted assets	(942,229)	(553,702)	(3,168,820)
Surplus adjustments: Paid in	<u>4,000,000</u>	<u>800,000</u>	<u>13,200,000</u>
Net change in capital and surplus	<u>(1,901,893)</u>	<u>2,644,515</u>	<u>(695,945)</u>
Capital and surplus end of reporting year	<u><u>\$ 6,463,005</u></u>	<u><u>\$ 8,364,898</u></u>	<u><u>\$ 5,720,383</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 Estimate</u>	<u>High</u>	<u>Total Carried</u>	<u>Sufficiency Vs. KPMG Mid Estimate</u>
Unpaid Claim Liabilities	\$5,268	\$5,708	\$6,108	\$6,026	\$318

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

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 \$393,916. The Company paid an adjusted fee in 2018 of 387,994. 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.

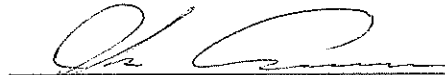
SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in 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