



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, 2023

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

FALLON HEALTH AND LIFE ASSURANCE COMPANY, INC.

TABLE OF CONTENTS

| | |
|--|----|
| Salutation | 1 |
| Scope of Examination | 2 |
| Summary of Significant Findings of Fact | 3 |
| Company History | 3 |
| Management and Control | 4 |
| Board of Directors | 4 |
| Committees of the Board of Directors | 4 |
| Officers | 4 |
| Holding Company | 5 |
| Organization Chart | 5 |
| Transactions and Agreements with Subsidiaries and Affiliates | 6 |
| Territory and Plan of Operation | 6 |
| Reinsurance | 6 |
| Financial Statements | 7 |
| Statement of Assets, Liabilities, Capital and Surplus | 8 |
| Statement of Revenue and Expenses | 9 |
| Reconciliation of Capital and Surplus for each Year in the Three-Year Period | 10 |
| Analysis of Changes in Financial Statements Resulting from the Examination | 11 |
| Comments on Financial Statement Items | 11 |
| Subsequent Events | 12 |
| Summary of Recommendations | 12 |
| Signature Page | 13 |



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

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MAURA T. HEALEY
GOVERNOR

MICHAEL T. CALJOUW
COMMISSIONER OF INSURANCE

KIMBERLEY DRISCOLL
LIEUTENANT GOVERNOR

May 29, 2025

The Honorable Michael T. Caljouw
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One Federal Street, Suite 700
Boston, MA 02110

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 One Mercantile Street, Suite 400, Worcester, Massachusetts, 01608. 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, 2020, 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, 2021, through December 31, 2023, 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 2021 through 2023. 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 relevant 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, 2023. 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 insurance.

FHLAC had a wholly owned subsidiary, UltraBenefits, Inc., ("UltraBenefits") a third-party administrator in Massachusetts. UltraBenefits provided 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. 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. The Secretary of the Commonwealth of Massachusetts approved the Articles of Voluntary Dissolution of GISC effective December 8, 2023. On December 15, 2023, FHLAC entered into a securities purchase agreement to sell UltraBenefits, Inc. to Benefit Plan Administrators of Eau Claire, LLC.

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 resulted 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 continues to sell its Community Care product on the Connector, provided it receives plan approval, and FHLAC continues 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, 2023, the Company’s Board of Directors consisted of the following seven Directors.

| <u>Name of Director</u> | <u>Title</u> | <u>Business Affiliation</u> |
|--------------------------------|-------------------|--|
| Frederick M. Misilo, Jr., Esq. | Chair | Fletcher Tilton, P. C. |
| Joseph N. Stolberg | Treasurer | Partner & Co-Founder, Stolberg, Ebbeling & Blanchette, LLP |
| B. John Dill | Director | President and CEO, The Colebrook Realty Services, Inc. and Affiliates |
| James R. Buonomo | Clerk | Retired |
| Richard P. Burke | <i>Ex officio</i> | President & CEO, FCHP |
| Deborah C. Enos | Director | Retired |
| Janet S. Rico | Director | Nurse Practitioner in the Division of the Palliative Care and Geriatric Medicine at Mass. General Hospital |

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 Company shall be comprised solely of Directors.

As of December 31, 2023, there were no standing committees of the Board.

Officers

FHLAC may have as its officers a Chair of the Board, an Immediate Past Chair of the Board, a Vice Chair, a President and Chief Executive Officer, a Treasurer, a Clerk, and may have such other

Fallon Health and Life Assurance Company, Inc.

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, 2023 were as follows:

| <u>Officer</u> | <u>Title</u> |
|--------------------|--|
| James Buonomo | Clerk |
| Joseph N. Stolberg | Treasurer |
| Richard Burke | President and CEO* |
| Todd Bailey | Chief Financial Officer |
| David Brumley | Chief Medical 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 |
| Matthew Herndon | Senior VP and Chief State Programs Officer |
| James Gentile | Senior VP and Chief Compliance Officer |
| Emily West | Senior VP and Chief Operating Officer |

* 2023 annual statements were signed by Mr. Bailey as interim President and CEO as a result of Mr. Burke's retirement in January 2024 as noted in the Subsequent Events section of this report.

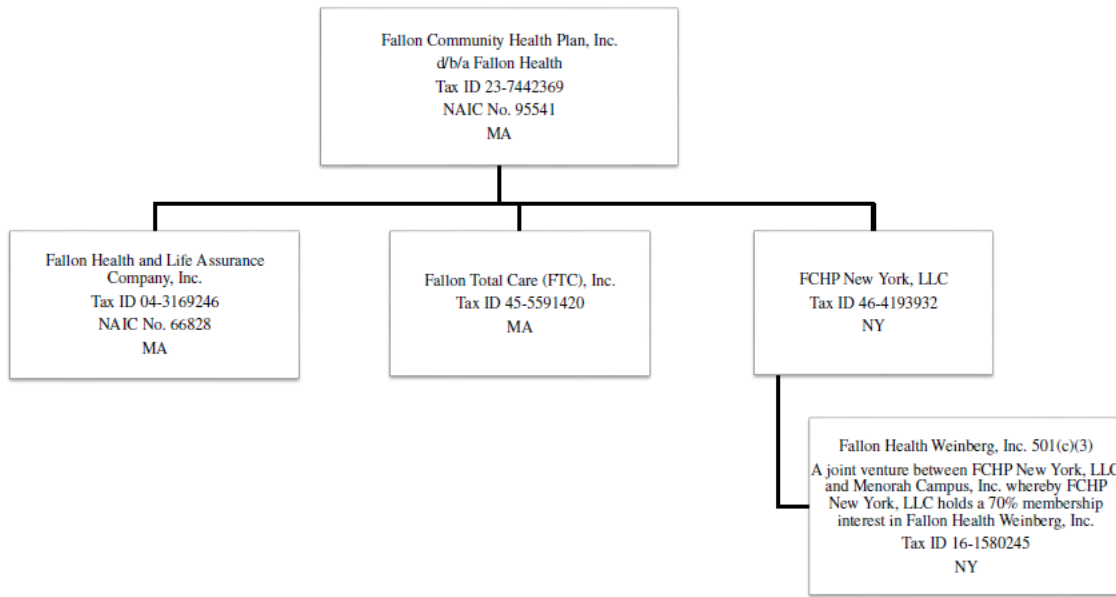
Holding Company

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 211 Code of Massachusetts Regulation 7.00. FCHP is the "ultimate controlling person" of the Holding Company System.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2023, is illustrated below:

Fallon Health and Life Assurance Company, Inc.



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 received no capital and surplus contributions from FCHP.

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 carries reinsurance against excessive claims utilization on a per-member basis with PartnerRe America Insurance Company. This reinsurance company has a Standard & Poor's rating of A+ and a Moody's rating of A1. Under this policy, FCHP is reimbursed 90% of all claims over the policy deductible, which was \$1,000,000 for the years ended December 31, 2023, 2022, and 2021. For Commercial members, FCHP is reimbursed 40% of all claims over the policy deductible. FHLAC is a named insured under this agreement.

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, 2023. These financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2023

Statement of Revenue and Expenses for the Year Ended December 31, 2023

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2023

Fallon Health and Life Assurance Company, Inc.

Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2023

| | Per Annual Statement |
|--|----------------------------|
| Assets | |
| Bonds | \$ 15,124,020 |
| Cash, cash equivalents and short-term investments | 12,126,185 |
| Subtotals, cash and invested assets | <u>27,250,205</u> |
| Investment income due and accrued | 124,778 |
| Amounts receivable relating to uninsured plans | 37,352 |
| Receivables from parent, subsidiaries and affiliates | 258,658 |
| Health care and other amounts receivable | 609,770 |
| Total assets | <u>\$ 28,280,763</u> |
| Liabilities | |
| Claims unpaid | \$ 1,086,173 |
| Accrued medical incentive pool and bonus amounts | 4,888 |
| Unpaid claims adjustment expenses | 32,410 |
| Aggregate health policy reserves | 1,400,000 |
| Premiums received in advance | 260,019 |
| General expenses due or accrued | 228,220 |
| Liability for amounts held under uninsured plans | 1,217,399 |
| Total liabilities | <u>4,229,109</u> |
| Common capital stock | 400,000 |
| Gross paid in and contributed surplus | 121,841,000 |
| Unassigned funds (surplus) | (98,189,346) |
| Total capital and surplus | <u>24,051,654</u> |
| Total liabilities, capital, and surplus | <u>\$ 28,280,763</u> |

Fallon Health and Life Assurance Company, Inc.

Statement of Revenue and Expenses
For the Year Ended December 31, 2023

| | Per Annual Statement |
|---|----------------------------|
| Member Months | <u>28,570</u> |
| Net premium income | \$ <u>5,495,581</u> |
| Total revenues | <u><u>5,495,581</u></u> |
| Deductions: | |
| Hospital/medical benefits | 5,675,986 |
| Other professional services | 21,914 |
| Prescription drugs | (23,422) |
| Incentive pool, withhold adjustments and bonus amounts | <u>4,888</u> |
| Subtotal | <u>5,679,366</u> |
| Total hospital and medical | <u>5,679,366</u> |
| Claims adjustment expenses | 57,007 |
| General administrative expenses | 495,430 |
| Increase in reserves for life and accident and health contracts | <u>1,200,000</u> |
| Total underwriting deductions | <u>7,431,803</u> |
| Net underwriting gain (loss) | (1,936,222) |
| Net investment income earned | 498,529 |
| Net realized capital gains (losses) less capital gains tax | <u>5,322,908</u> |
| Net investment gain | <u>5,821,437</u> |
| Net income, after capital gains tax and before all other federal income taxes | <u>3,885,215</u> |
| Net income | \$ <u><u>3,885,215</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, 2023

| | 2023 | 2022 | 2021 |
|---|---------------|---------------|---------------|
| Capital and surplus prior year | \$ 16,256,819 | \$ 15,314,218 | \$ 10,195,117 |
| Net income | 3,885,215 | 1,257,831 | 5,621,756 |
| Change in net unrealized capital gains (losses) | (267,572) | 218,888 | (771,283) |
| Change in nonadmitted assets | 4,177,192 | (534,118) | 268,628 |
| Net change in capital and surplus | 7,794,835 | 942,601 | 5,119,101 |
| Capital and surplus, December 31 | \$ 24,051,654 | \$ 16,256,819 | \$ 15,314,218 |

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, 2023, for the key products/lines of business. KPMG performed calculations using historical claims data displaying claims paid by incurred month. Payments through June 30, 2024, 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. These balances exclude \$87K which represent the amounts related to Miscellaneous Payables, Margin and immaterial IBNR lines not reviewed by the Actuaries.

| <p><u>Fallon Community Health Plan, Inc.</u> (000’s omitted)</p> | | | | | |
|--|-----------------------|-------------------------|-------------|--------------------------|--|
| | <u>KPMG Estimates</u> | | | | Sufficiency Vs. KPMG Mid Estimate |
| | <u>Low</u> | <u>Mid Estimate</u> | <u>High</u> | <u>Total Carried</u> | |
| Unpaid Claim Liabilities | \$296 | \$302 | \$305 | \$999 | \$697 |

SUBSEQUENT EVENTS

Richard Burke, President and CEO, retired effective January 31, 2024. Mr. Bailey served as Interim CEO following Mr. Burke's retirement through June 30, 2024. Manny Lopes was appointed to serve as Company's President and CEO effective July 1, 2024.

On September 6, 2024 FHLAC requested approval from the Division to declare an extraordinary dividend in the amount of \$8M to FCHP as required by Massachusetts state law. Approval was received on October 18, 2024 and the dividend was paid in cash from FHLAC to FCHP on October 22, 2024. This distribution was recorded as a return of capital by FCHP.


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.

A handwritten signature in cursive script, reading "Michael Lewandowski", is written over a horizontal line.

Michael Lewandowski, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance