



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, 2011

NAIC COMPANY CODE 66828

EMPLOYERS ID NUMBER 04-3169246

Fallon Health and Life Assurance Company, Inc.

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

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May 28, 2013

Honorable Joseph G. Murphy
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 ("M.G.L."), Chapter 176G, Section 10, 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. (hereinafter referred to as “the Company”, or “FHLAC”) was last examined as of December 31, 2007 by the Massachusetts Division of Insurance (“Division”). The current examination covers the four-year period from January 1, 2008 through December 31, 2011, 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 Handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

KPMG LLP (“KPMG”) was engaged by the Division to perform certain agreed upon procedures consistent with the guidance provided in 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, 2011. KPMG’s Information Technology Advisory Services personnel were engaged to perform a review of the Company’s general controls over its information technology environment. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

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, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees’ pension and benefits plans, disaster recovery plan, treatment of policyholders 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.

The Company was audited each of the years under examination by Ernst & Young LLP (“E&Y”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2008 through 2011. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective. Effective for the 2012 annual audit, the Company replaced E&Y and retained PricewaterhouseCoopers LLP as its certified public accountants.

Additionally, 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.

Status of Findings from the Prior Examination

There were no findings from the previous Exam that require an update.

COMPANY HISTORY

General

FHLAC is a Massachusetts stock health and life insurance company operating under Massachusetts General Laws, Chapter 175. FHLAC was formed in 1992 and commenced operations in 1993. FHLAC is a wholly-owned subsidiary of Fallon Community Health Plan, Inc. ("FCHP") and focuses on Preferred Provider Organization ("PPO") coverage, indemnity insurance and administrative services only ("ASO") arrangements.

On August 31, 2006, FHLAC acquired UltraBenefits, Inc. ("UltraBenefits"), a third party administrator in Massachusetts, for cash and future cash considerations based upon certain client retention provisions and profitability targets. UltraBenefits provides medical, dental and disability claims processing, as well as claims management services, premium and fee-billing services of Flexible Spending Accounts, Health Reimbursement Accounts and COBRA. The acquisition was accounted for under the statutory purchase method and goodwill was recorded for the excess purchase price over the book value of UltraBenefits. Amortization expense recorded as a change in unrealized losses in the statement of shareholder's capital and surplus was \$267,000 in 2010. At the end of 2010, an annual analysis of the value of UltraBenefits goodwill was performed. As a result of this analysis, it has been concluded that there is no value to UltraBenefits goodwill. The remaining goodwill of \$2,674,000 was recorded as a realized capital loss in 2010.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

Company Bylaws

The Company's bylaws may be amended or repealed and new bylaws may be adopted, by the affirmative vote of the Board of Directors at any annual meeting of the Board of Directors or at any special meeting of the Board of Directors called for that purpose; provided, further that the notice of which shall either specify the articles to be affected or the subject matter of the proposed amendment or repeal.

The Company's bylaws indicate the following regarding the meetings of the Company's stockholders:

- The annual meeting of the stockholders shall be held in the month of June, at such hour and place as may be named in the call of the meeting, or at such other time and date as may be set by the Board of Directors. The purposes for which an annual meeting is to be held, in addition to those prescribed by law, by the Articles of Organization and by the Company's bylaws, may be specified by the Board of Directors or by a writing signed by any of the Chair of the Board, President, Vice Chair or a quorum of the Directors. In the event the annual meeting is not held on such date, a special meeting in lieu of the annual meeting may be held with all the force and effect of an annual meeting.
- At any meeting of the stockholders, the presence of a majority of the outstanding and issued shares of the Corporation, represented in person or by proxy, shall constitute a quorum, but a smaller number of individuals may adjourn any meeting and the meeting so adjourned may be held without further notice when a quorum is secured. When a quorum is present at any meeting, the vote of individuals holding a majority of all of the issued and outstanding shares shall decide any question brought before such meeting, except where a larger vote is required by law, by the Articles of Organization or by the Company's bylaws.
- Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

Conflict of Interest Procedures

Pursuant to the Company's bylaws, the Company maintains a Conflict of Interest Policy that is approved by the Board of Directors. Every Director and officer, in a manner and form to be prescribed by the Conflict of Interest Policy, shall be required as a condition of the office to disclose fully any conflict of interest as defined in the Conflict of Interest Policy and the Company's bylaws. Should a conflict arise, the interested Director may make a presentation regarding the transaction in question to the Board and shall not be present during the discussion of, and vote on, the transaction in question. The Chair of the Board shall, if appropriate, appoint a disinterested Director or committee to investigate alternatives to the proposed transaction or arrangement. After exercising due diligence, the Board shall determine whether the Company, with reasonable efforts, can obtain a more advantageous transaction that would avoid the conflict of interest. If such an alternative is not available, the Board shall determine by a majority vote of

the disinterested Directors whether the transaction is in the Company's best interest, for its own benefit, and is fair and reasonable to the Company. In case the Corporation enters into a contract or business transaction that would involve a Director or officer conflict of interest consistent with these procedures, such contract or transaction is not invalidated by the fact that one or more Directors or officers have interests that may be adverse to the interests of the Corporation.

Review of the 2011 Board of Directors records identified no significant conflicts of interest and no financial conflicts of interest.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

Board of Directors

The Company's bylaws indicate the following regarding its Board of Directors (the "Board"):

- The Board of Directors shall have and may exercise all the powers of the Corporation except such powers as are conferred upon the stockholders by law, by the Articles of Organization, or by the Company's bylaws.
- The Board of Directors shall consist of not less than five (5) nor more than thirteen (13) voting members, with the exact number being set by the Board. The President of the Corporation shall serve as an *ex officio* member of the Board with vote and shall be counted for purposes of determining the total number of Directors set forth in the preceding sentence.
- The terms of the Directors shall be staggered with approximately one-third (1/3) of the total number of Directors to be elected at each annual meeting of the stockholders. Except as necessary to stagger the terms of the Directors, each Director shall be elected for a three-year term. Each Director, except for an *ex officio* Director, will be limited to a maximum of three terms, and shall serve until his or her respective successor is elected and qualified. A partial term or term of less than three years shall not be considered as a three-year term for purposes of the preceding. *Ex officio* Directors shall serve for so long as they hold their underlying office position.
- Regular meetings of the Board of Directors shall be held at such places, within or without the Commonwealth of Massachusetts, and at such times as the Board may determine by vote from time to time, provided that the Board of Directors shall meet at least quarterly.

Fallon Health and Life Assurance Company, Inc.

- Special meetings of the Board of Directors may be held at any time and at any place, within or without the Commonwealth of Massachusetts, when called by the Chair of the Board, President or by two or more members of the Board.
- At any meeting of the Board, the presence of a majority of the Directors then in office shall constitute a quorum for the consideration of any questions, but a smaller number of Directors may adjourn any meeting, and the meeting so adjourned may be held without further notice when a quorum is secured. When a quorum is present at any meeting, subject to the provisions of the Company's Conflicts of Interest Policy regarding Interested Directors, the vote of a majority of all of the Directors then in office entitled to vote on the question shall decide any question brought before such meeting, except where a larger vote is required by law, by the Articles of Organization or by the Company's bylaws.
- Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting if all Directors entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of the Board. Such consents shall be treated for all purposes as a vote at a meeting of the Board.
- Any Director may resign at any time by delivering his or her resignation in writing to a meeting of the Board of Directors or to the President. Any Director may be removed from office, with or without cause, by a vote of the majority of the stockholders at any meeting called for that purpose, provided that an *ex officio* Director shall only be removed by removal from his or her underlying office position. Directors then in office may act despite a vacancy or vacancies in the Board, and shall for this purpose be deemed to constitute a full Board. Any vacancy in the Board, however occurring, may be filled by the election of a successor by majority vote of the remaining Directors then in office from a list of nominees prepared by the Nominating Committee. Each successor elected to fill a vacancy created by an unexpired term shall hold office for the balance of the unexpired term, and until his or her successor shall be elected or appointed and qualified.

At December 31, 2011, the Board was comprised of five (5) Directors, which is in compliance with the Company's bylaws. Directors duly elected and serving at December 31, 2011, with business affiliations, were as follows:

Director
David W. Hillis

Principal Occupation
President and Chief Executive Officer,
AdCare Hospital of Worcester, Inc.

W. Patrick Hughes

President & Chief Executive Officer
Fallon Community Health Plan, Inc.

Christian W. McCarthy

President and Treasurer, Assumption
College

Richard Burke

Clerk, President, Senior Care Services &
Govt. Programs, CCO, FCHP

Committees of the Board of Directors

The Company's bylaws indicate the following regarding committees of the Board:

The Board 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, 2011, FHLAC had no standing committees of the Board.

Officers

The Corporation shall have as its officers, a Chair of the Board, a Vice Chair, a President and Chief Executive Officer ("President and CEO"), a Treasurer, a Clerk, and 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 Chair of the Board, the Vice Chair and the Treasurer shall be Directors. The Clerk shall be a resident of Massachusetts, but need not be a Director. So far as it is permitted by law, any two or more offices may be filled by the same person.

The President and CEO shall be appointed by the Board and shall be the chief executive of the Corporation. The President and CEO shall have general control and charge over the management of the ordinary affairs of the Corporation. The term of the President and CEO shall be determined by the Board and may be contained in any employment agreement between FCHP and the President and CEO.

Any officer or agent may resign at any time by delivering his or her resignation, in writing to the President and CEO, Chair of the Board or Clerk, or to a meeting of the Board of Directors. The Board of Directors may remove from office, with or without cause, any officer appointed by the Board of Directors or terminate or modify the authority of any such officer or any agent; provided, however, that in the case of the President and CEO, any such removal shall be consistent with the terms of any employment with such officer.

Fallon Health and Life Assurance Company, Inc.

If the office of the Chair of the Board, the Vice Chair, the Treasurer, the Clerk, or any other officer becomes vacant by reason of death, resignation or removal, the Board of Directors may elect a successor. If the office of the President becomes vacant by reason of death, resignation or removal, the Board of Directors may appoint a successor. Each such successor shall hold office for the unexpired term, and continue thereafter until his or her successor shall be elected or appointed and qualified.

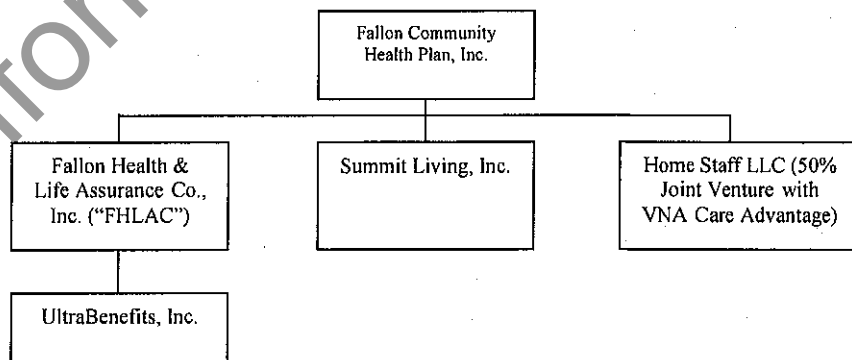
<u>Officer</u>	<u>Title</u>
David W. Hillis	Chairman of the Board
Richard Houlihan	Vice Chair
W. Patrick Hughes	President & Chief Executive Officer
Richard Burke	Clerk, Chief Compliance Officer & President Senior Care Services & Govt. Programs
Christian W. McCarthy	Treasurer

Affiliated Companies

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 Section 206C of M.G.L., Chapter 175 and Regulation 211 CMR 7.06 (1). FCHP is the "ultimate controlling person" for the Company.

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2011 is illustrated below:



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 that is included as an offset to expense.

Total management fees for the years ended December 31, 2011, 2010, 2009 and 2008 amounted to \$7.95 million, \$7.07 million, \$6.1 million and \$5.3 million, respectively. Settlement of intercompany balances takes place monthly.

In addition to the management fees charged to FHLAC, during the period covered by this exam, FCHP has made capital contributions to FHLAC as follows to offset FHLAC's poor operating results.

<u>Year</u>	<u>Amount</u>
2011	\$ 8,400,000
2010	11,300,000
2009	11,300,000
2008	4,500,000
Total	<u>\$35,500,000</u>

In 2012, FCHP made an additional capital contribution to FHLAC of \$10.6 million.

FIDELITY BONDS AND OTHER INSURANCE

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

In addition to the bond insurance, the Company has further protected its interests and properties by acquiring policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2011.

PENSION AND INSURANCE PLANS

FHLAC has no employees. Refer to Transactions and Agreements with Subsidiaries and Affiliates section above.

TERRITORY AND PLAN OF OPERATION

FHLAC is headquartered in Worcester, Massachusetts and is only licensed to transact business in Massachusetts and together with FCHP, has historically focused on Worcester County, but has since expanded its service area to most of 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 PPO insurance plans.

GROWTH OF COMPANY

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, capital and surplus and net premium income of the Company for the years ended 2008 through 2011, which was prepared from the Company's annual statements, are shown in the following schedule:

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2011	\$ 23,555,350	\$ 18,821,365	\$ 4,733,985	\$ 25,180,022
2010	16,342,483	11,981,982	4,360,501	25,206,199
2009	13,529,470	9,694,211	3,855,259	21,266,048
2008	10,014,474	6,907,056	3,107,418	12,804,453

The Company's surplus position for each of the years under exam was supported by annual capital contributions from its parent, FCHP. As noted above, capital contributions from FCHP were received each year under examination and without such financial support, the Company would not have adequate capital to sustain its operations.

LOSS EXPERIENCE

Unpaid Claims

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities ("UCL") as of December 31, 2011 and prior periods. For December 31, 2011, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. As the FHLAC business pays fairly quickly, the range of estimates for the December 31, 2011 UCL is narrow and the actuarial estimates are similar to FHLAC's estimates with hindsight through July 30, 2012.

FHLAC made a separate provision for Loss Adjustment Expenses / Claim Adjustment Expenses in 2011 and the resulting expense percentage levels used are within industry norms.

Based upon KPMG's review, the UCL as of December 31, 2011 appears to be fairly stated but conservative. KPMG noted that some conservatism is not unreasonable given the exposure to factors that impact the reserves and cause uncertainty when developing reserve estimates. The amount of conservatism in the December 31, 2011 reserves appears to be consistent with current industry results.

The Company's premium deficiency reserve calculation was reviewed and found to be reasonable. The Company has calculated the reserve by looking at projected deficiency separately for each large group. The projected deficiency is defined as the difference between the premium sold on the contract and the premium (claims and expenses) required by the underwriting department for the months remaining in the rating period. The calculation indicated that a premium deficiency reserve of \$4.3 million was required as of December 31, 2011.

Provider Contracts

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with physician providers and other health care providers. For all purposes, physician providers and such other organizations or individuals are and shall be deemed to be independent contractors with the Company, and shall not be characterized as officers, employees or agents of the Company.

The agreements are in compliance with Massachusetts statutes and regulation 211 CMR 52.00.

REINSURANCE

Ceded Reinsurance

FHLAC carries reinsurance 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 per member per year limit is \$2,000,000. The maximum reinsurance for all claims over a member's lifetime is not limited to a specific dollar amount per the contract. Total premiums of \$46,826, \$41,765, \$29,291 and \$13,862 were ceded relating to reinsurance for the years ended December 31, 2011, 2010, 2009 and 2008, respectively. Recoveries realized under the applicable reinsurance contract for the years ended December 31, 2011, 2010, 2009 and 2008 were \$0, \$70,663, \$329,658 and \$257,039, respectively.

ACCOUNTS AND RECORDS

During the years under exam, the books and records of the Company were audited annually by the independent certified public accounting firm of E&Y in accordance with 211 CMR 23.00. The CPA firm issued an unqualified opinion on the audited financial statements for all years under exam. The Company is also subject to review by an internal audit department and subject to the requirements of MAR.

The internal control structure was discussed with management through questionnaires and through a review of the work performed by E&Y. 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 IT systems environment. The questionnaire was completed by the Company and reviewed by the Division's consultants from KPMG's Technology Advisory Services team to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network, Wide Area Network and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. No material exceptions were noted.

SPECIAL DEPOSITS

The Company held no special deposits at December 31, 2011.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners as of December 31, 2011:

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2011

Statement of Revenue and Expenses for the year ended December 31, 2011

Statement of Capital and Surplus for the year ended December 31, 2011

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period ended December 31, 2011

For Informational Purposes Only

Fallon Health and Life Assurance Company, Inc.
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2011

	Per Company	Examination Changes	Per Examination
Assets			
Cash on hand and on deposit	\$19,647,307	\$0	\$19,647,307
Subtotals, cash and invested assets	19,647,307		19,647,307
Premiums and considerations:			
Uncollected premiums and agents' balances	281,397		281,397
Amounts receivable relating to uninsured plans	506,432		506,432
Receivable from parent, subsidiaries and affiliates	3,038,514		3,038,514
Healthcare and other amounts receivable	81,700		81,700
 Total Assets	 <u>\$23,555,350</u>	 <u>\$0</u>	 <u>\$23,555,350</u>
Liabilities, Surplus and Other Funds			
Claims unpaid	\$6,289,973	\$0	\$6,289,973
Unpaid claim adjustment expense	188,016		188,016
Aggregate health policy reserves	4,300,000		4,300,000
Premiums received in advance	1,142,822		1,142,822
General expense due or accrued	653,686		653,686
Amounts due parent, subsidiaries and affiliates	1,702,361		1,702,361
Liability for amounts held under uninsured plans	4,544,507		4,544,507
Total Liabilities	18,821,365		18,821,365
 Common capital stock	400,000		400,000
Gross paid-in and contributed surplus	49,591,000		49,591,000
Unassigned funds (surplus)	(45,257,015)		(45,257,015)
 Total capital and surplus	 <u>4,733,985</u>	 <u></u>	 <u>4,733,985</u>
 Total liabilities, capital and surplus	 <u>\$23,555,350</u>	 <u>\$0</u>	 <u>\$23,555,350</u>

Fallon Health and Life Assurance Company, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2011

	Per Company	Examination Changes	Per Examination
Member months	59,401	0	59,401
Net premium income	\$25,180,022	\$0	\$25,180,022
Total revenue	25,180,022		25,180,022
Less:			
Hospital/medical benefits	23,648,707		23,648,707
Other professional services	752,742		752,742
Prescription Drugs	2,999,433		2,999,433
Aggregate write-ins for other hospital and medical	422,490		422,490
Total hospital and medical	27,823,372		27,823,372
Claims adjustment expense	251,860		251,860
General administrative expense	2,006,960		2,006,960
Increase in reserves for life and accident and health contracts	3,127,690		3,127,690
Total underwriting deductions	33,209,882		33,209,882
Net underwriting gain (loss)	(8,029,860)		(8,029,860)
Net investment income earned	40,399		40,399
Net investment gains or (losses)	40,399		40,399
Net income or (loss) after capital gains tax and before all other federal income taxes	(7,989,461)		(7,989,461)
Net Income	<u>\$ (7,989,461)</u>	<u>\$0</u>	<u>\$ (7,989,461)</u>

Fallon Health and Life Assurance Company, Inc.
Statement of Capital and Surplus
For the Year Ended December 31, 2011

	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>
Surplus as regards policyholders, December 31 prior year	\$4,360,501	\$0	\$4,360,501
Net income	(7,989,461)		(7,989,461)
Change in net unrealized capital gains (losses)	(27,886)		(27,886)
Change in nonadmitted assets	(9,169)		(9,169)
Surplus adjustments:			
Paid In	8,400,000		8,400,000
Net change in capital and surplus	<u>373,484</u>		<u>373,484</u>
Surplus as regards policyholders, December 31 current year	<u>\$4,733,985</u>	<u>\$0</u>	<u>\$4,733,985</u>

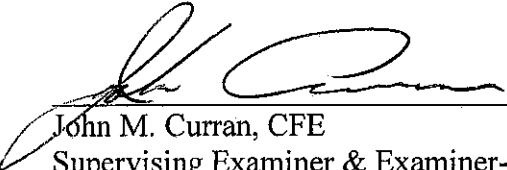
Fallon Health and Life Assurance Company, Inc.
Reconciliation of Capital and Surplus
For Each Year in the Four-Year Period Ended December 31, 2011

	2011	2010	2009	2008
Capital and surplus prior reporting period	<u>\$4,360,501</u>	<u>\$3,855,259</u>	<u>\$3,107,418</u>	<u>\$3,619,516</u>
Net income (loss)	(7,989,461)	(13,027,781)	(10,406,252)	(4,776,679)
Change in net unrealized capital gains (losses)	(27,886)	770,504	(310,081)	(411,008)
Change in nonadmitted assets	(9,169)	1,512,519	199,174	225,589
Surplus adjustment:				
Paid In	<u>8,400,000</u>	<u>11,250,000</u>	<u>11,265,000</u>	<u>4,450,000</u>
Net change in capital and surplus	<u>373,484</u>	<u>505,242</u>	<u>747,841</u>	<u>(512,098)</u>
Capital and surplus end of reporting period	<u><u>\$4,733,985</u></u>	<u><u>\$4,360,501</u></u>	<u><u>\$3,855,259</u></u>	<u><u>\$3,107,418</u></u>

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