

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

REPORT OF EXAMINATION OF THE
HARVARD PILGRIM HEALTH CARE, INC.

Canton, Massachusetts

As of December 31, 2020

NAIC GROUP CODE 0595

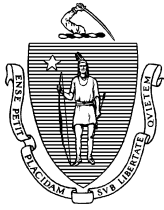
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HARVARD PILGRIM HEALTH CARE, INC.

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COMMONWEALTH OF MASSACHUSETTS
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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 25, 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 176G, Section 10, and other applicable statutes, an examination has been made of the financial condition and affairs of

HARVARD PILGRIM HEALTH CARE, INC.

at its home office located at One Wellness Way, Canton, Massachusetts, 02021-1166. The examination was conducted remotely. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Harvard Pilgrim Health Care, Inc. (“HPHC, Inc.” or “Company”) was last examined as of December 31, 2016 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the four-year period from January 1, 2017 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 affiliates in the Harvard Pilgrim Group (“Group”) were also examined and separate Reports of Examination have been issued:

HPHC Insurance Company, Inc. (“HPIC”)
Harvard Pilgrim Health Care of New England (“HPHC-NE”)

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 prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176G, Section 10, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Deloitte & Touche LLP (“D&T”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2017 through 2020. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

The INS Companies (“INS”) was engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division’s examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination nor during the prior examination as of December 31, 2016.

COMPANY HISTORY

HPHC, Inc. is the oldest nonprofit health plan in New England. It operates as a health plan providing comprehensive health benefit plans, access to health care and other related services in Massachusetts and Maine to group, individual and Medicare members through contract with physicians, hospitals and other health care providers. HPHC, Inc. was founded in 1969 by the Dean of the Harvard Medical School and was the first HMO in New England. HPHC, Inc. began operations as a staff-model HMO operation out of a single health center in Boston, and by 1990, consisted of fourteen Boston-area health centers licensed to operate in Massachusetts and eight independent contracted physician groups, designed to provide an alternative to fee-for-service health care. HPHC, Inc.'s pre-paid group practice brought a new concept of health care delivery to Massachusetts employers and employees by linking the delivery and payment of health care and providing most outpatient services under one roof in conveniently located health centers and in independent physician group facilities.

As of December 31, 2016, HPHC, Inc. had the following wholly owned subsidiaries: HPHC-NE which is also a Massachusetts not-for-profit corporation, operating as a not-for-profit health plan providing comprehensive health insurance, access to health care and other related services in New Hampshire to group, individual and Medicare members; HPIC, a Massachusetts for-profit insurance company underwriting health benefit plans in Massachusetts, Maine, Connecticut and New Hampshire for PPO and Medicare products and health risks related to out-of-network coverage for HPHC, Inc. members and Harvard Pilgrim Health Care of Connecticut, Inc. ("HPHC-CT"), a non-profit company, to sell and open access to health maintenance organization products.

HPHC, Inc. also had full control of the following affiliates: Harvard Pilgrim Health Care Foundation, Inc. ("Foundation") a Massachusetts non-profit corporation, which provides support and funding for community service programs; HPHC Holding Corporation, a Massachusetts for-profit corporation; HPHC Insurance Agency, Inc., a Massachusetts for-profit corporation licensed in Massachusetts as a corporate insurance producer, and Health Plans, Inc., a Massachusetts for-profit company, providing third-party administrative services for self-insured employers.

On November 9, 2016, the Harvard Pilgrim Board of Directors approved certain changes to the Company's governance structure, which were approved by the Division of Insurance of the Commonwealth of Massachusetts on December 23, 2016. Effective January 1, 2017, HPHC, Inc. formed New HPHC Holding Corporation ("NEWCO") as a new wholly owned Delaware C corporation. All HPHC, Inc.'s for-profit entities were contributed to NEWCO. The for-profit subsidiaries under NEWCO include: HPHC Insurance Agency, HPIC, Health Plans, Inc. with its two-for-profit subsidiaries: Plan Marketing Insurance Agency, Inc. and Care Management

Harvard Pilgrim Health Care, Inc.

Services, Inc.; In addition to, two other subsidiaries that are disregarded entities for tax purposes: TrestleTree LLC and MedWatch LLC, which are care management companies.

All the not-for-profit subsidiaries remained under HPHC, Inc. They include HPHC-NE and Harvard Pilgrim Institute, LLC (“Institute”), a Massachusetts limited liability company which performs research and research administration for grants and contracts awarded to HPHC, Inc. The Foundation remained an affiliate of the Company which makes contributions to the Foundation and the Institute to support their ongoing operations.

In February 2020, HPHC, Inc. received its license to begin writing health insurance policies in Connecticut. Upon receipt of all necessary corporate and regulatory approvals, HPHC-CT merged with and into HPHC, Inc., effective July 1, 2020, and HPHC-CT was dissolved as of such effective date.

Additionally, HPHC, Inc. entered a joint venture in 2015 with Benevera Health, LLC, 4 New Hampshire providers. Benevera Health has a new complex care management model introduced in 2016 that will analyze and utilize member entity data to provide active care management to patients to continue to evolve and help the Company control medical costs. And as of December 31, 2020, the Company has an unfunded commitment in a new joint venture interest of \$30 million, which will be considered effective in 2020.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors (“Board”) and its Committees for the period under examination were read and they 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.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws were amended in 2017 to change the maximum tenure of the chair of the board and in 2020 to add an indemnification provision. The articles of organization were restated in 2020 to clarify the purpose of the corporation and the indemnification policies and procedures.

Board of Directors

In accordance with the bylaws, the affairs of the Company shall be managed by the Directors who shall have and may exercise all the powers of the Company. The Board of the Company shall be comprised of between seven and seventeen individuals. Such persons elected as Directors by the Company’s Board shall serve for staggered terms.

Harvard Pilgrim Health Care, Inc.

At December 31, 2020, the Company's Board of Directors consisted of the following:

<u>Director</u>	<u>Title</u>
Earl W. Baucom	Retired – EVP and COO, Federal Home Loan Bank of Boston
Shelby M. Chodos	Adjunct Lecturer
Scott S. Hartz	Executive Vice President Manulife Financial Corporation
Myechia Minter-Jordan, MD	President and CEO, The Dimock Center
Joyce A. Murphy	Executive Vice Chancellor, UMass Medical School/Commonwealth Medicine
Greg A. Shell	Managing Director, Bain Capital, LP
Raymond Pawlicki	Retired SVP & CIO, Biogen
Michael J. Shea	Retired – EVP, CFO and Treasurer, Mac-Gray Corporation
Hedwig Veith Whitney	Retired, Senior Vice President of Human Resources, Aspen Technology
Martin J. Williams, M.D	Chief of Surgery at Carney Hospital

Officers

The officers of the Company shall be a Chair of the Board, Vice Chair of the Board, President, Treasurer, Clerk, and such other officers, if any, as the Directors or the President may determine. A person may hold more than one office at the same time.

The officers of the Company as of December 31, 2020 were as follows:

<u>Officer</u>	<u>Title</u>
Michael A. Carson	President and Chief Executive Officer
Charles R. Goheen	Chief Financial Officer and Treasurer
Michelle J. Clayman	Assistant Treasurer
Tisa K. Hughes	Chief Legal Officer and Clerk

Committees of the Board of Directors

Per the bylaws, the Board may appoint one or more committees and delegate to any such committee or committees any or all of the powers of the Directors, except those which by law, the Articles of Organization or bylaws the Board is prohibited from delegating. The bylaws identify five standing Board Committees: Finance Committee, Audit Committee, Human Resources Committee, Nominating and Governance Committee, and Patient Care Assessment Committee. Each standing Committee is governed by a written Board approved Charter and maintains a written

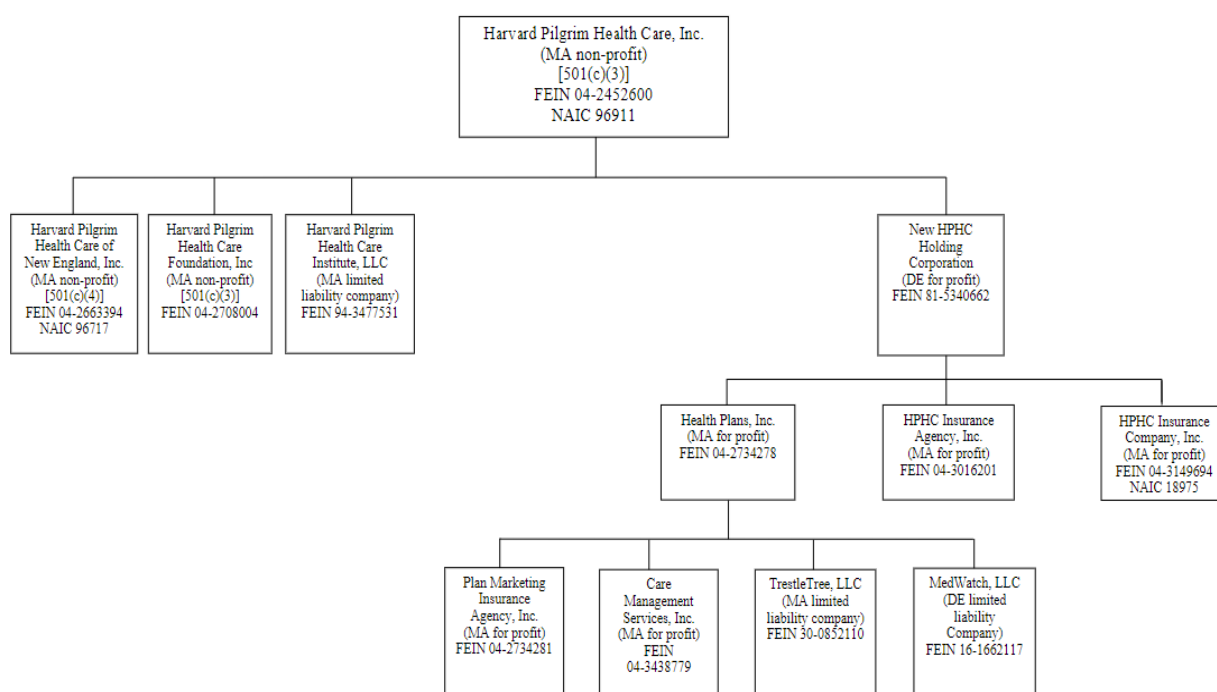
Harvard Pilgrim Health Care, Inc.

annual work plan that aligns with oversight and reporting responsibilities delineated in the Charter. The duties of each Committee are as described in its Charter or as otherwise directed by the Board. The Board may appoint and convene ad hoc committees.

Affiliated Companies

As stated in the Insurance Holding Company System Form B, Form C and Form F 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. HPHC, Inc. is the “ultimate controlling person” of the Holding Company System.

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Guaranty and Indemnity Agreement

The Company and its insurance affiliates, HPHC-NE and HPIC, Inc. participate in a Guaranty and Indemnity Agreement (“G&I Agreement”). Under the terms of the G&I Agreement, each affiliate guarantees the payment and performance of the others. In addition, each affiliate is jointly and

severally liable for all obligations that may arise out of this G&I Agreement. The Company has no contingent liabilities related to the G&I Agreement as of December 31, 2020.

Administrative Services Agreement

The Company provides all administrative and operational management services to HPHC-NE. The Company has a Management and Medical Services Agreement (“MMSA”) with HPHC-NE, which provides for an allocation of hospital and medical and administrative costs, including claims adjustment expenses from the Company to HPHC-NE. Administrative expenses are allocated to HPHC-NE based on the Company’s departmental cost allocation methodology. Intercompany balances are settled quarterly, following the close of the quarter.

The Company provided all administrative and operational management services to HPHC-CT. The Company had a MMSA with HPHC-CT, which provided for an allocation of hospital and medical and administrative costs, including claims adjustment expenses from the Company to HPHC-CT. Administrative expenses were allocated to HPHC-CT based on the Company’s departmental cost allocation methodology. This agreement was no longer effective once HPHC-CT merged into HPHC, Inc. in 2020.

The Company also provides all administrative and operational management services to HPIC. Administrative expenses, including claim adjustment expenses, are allocated to HPIC based on the Company’s departmental cost allocation methodology. Intercompany balances are settled quarterly, following the close of the quarter.

The Company also provides certain administrative and operational management services to Health Plans, Inc. (“HPI”). Administrative expenses are allocated to HPI based on HPHC, Inc.’s departmental cost allocation methodology.

The Company has a Management and Services Agreement with the Institute to provide management and administrative services. Under the agreement, HPHC, Inc. will charge the Institute a fee equal to the amount of direct and indirect costs of the services provided by HPHC, Inc. HPHC, Inc. has historically made a contribution to the Institute that is equal to the direct and indirect costs allocated to the Institute. In 2016, the agreement was amended; HPHC, Inc. will provide financial support to the Institute in an amount up to but not to exceed \$20 million in the event of an unforeseen and material loss of revenue. The Institute must maintain at least \$1 million of net assets to be used in such an event before drawing down on this contingent support.

HPHC, Inc. has a Management and Service Agreement with the Foundation. The Company makes contributions to the Foundation to support their ongoing operations. The Foundation reimburses HPHC, Inc. for expenses paid on its behalf.

Reconciliation and Settlement Agreement

Effective 2007 and amended and restated January 1, 2019, this agreement provides that financial transactions between companies are reconciled on a quarterly basis and if reconciliation requires a settlement payment, such payment will be made within 90 days of reconciliation.

Long Term Service Contract with NTT DATA International, LLC

HPHC, Inc. has a long-term agreement with NTT DATA International, LLC (“NTT”) (formerly Dell Perot Systems Healthcare Services Corporation) whereby NTT provides information technology operations, development and claims processing services at HPHC, Inc. facilities under the direction of NTT staff. Services include operational services for technology and claims operations and business project services. The agreement calls for an annual commitment of \$60 million and is subject to adjustment for changes in service levels, cost management by HPHC, Inc. and performance incentives for NTT. The agreement run through 2021.

Capital Contributions

On December 30, 2020, HPIC made an extraordinary distribution of \$30 million to HPHC, Inc., which was approved by the Massachusetts Division of Insurance.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in three states, with the largest numbers of insurance risks written in Massachusetts. The Company reported \$1.27 billion of 2020 direct premium written in Massachusetts.

Treatment of Policyholders – Market Conduct

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

HPHC, Inc. carries reinsurance against excessive utilization on a per-member basis. Under the policy, HPHC, Inc. is reimbursed for certain hospital inpatient and pharmacy claims in excess of the policy deductible. The Company is reimbursed 90% for large group, fully insured commercial and Medicare members and 40% for small group, fully insured commercial and individual members. The policy deductibles are \$1,100,000 for Maine and Connecticut fully insured, large and small group, commercial members and \$1,750,000 for Massachusetts fully insured, large and small group, commercial members. The Policy deductible is \$1,000,000 for Medicare members. There is no limit to the amount recoverable in excess of the Specific Deductible and Reimbursement Percentage. The impact of reinsurance recoveries on the financial statements is immaterial.

Effective January 1, 2019, HPHC, Inc. began participating in the Maine Guaranteed Access Reinsurance Association, which provides reinsurance for a portion of the Company’s Maine high-risk individuals health business.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2020. The financial statements are the responsibility of Company management.

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

Statement of Income for the Year Ended December 31, 2020

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

Harvard Pilgrim Health Care, Inc.

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

	Per Annual Statement
Assets	
Bonds	\$320,412,768
Common stocks	445,696,410
Real estate	21,253,886
Cash, cash equivalents and short-term investments	138,967,304
Other invested assets	143,229,469
Aggregate write-ins for invested assets	402,847
Subtotals, cash and invested assets	1,069,962,684
Investment income due and accrued	2,134,019
Premiums and considerations:	
Uncollected premiums and agents' balances	7,620,281
Accrued retrospective premium and contracts subject to redetermination	13,462,912
Reinsurance:	
Amounts recoverable from reinsurers	2,460,438
Amounts receivable relating to uninsured plans	33,376,996
Electronic data processing equipment and software	3,282,899
Receivables from parent, subsidiaries and affiliates	8,123,942
Health care and other amounts receivable	40,681,025
Aggregate write-ins for other than invested assets	6,168,929
Total assets	\$1,187,274,125
Liabilities	
Claims unpaid	\$125,895,782
Accrued medical incentive pool and bonus amounts	35,926,958
Unpaid claims adjustment expenses	1,760,403
Aggregate health policy reserves	32,464,434
Premiums received in advance	52,159,170
General expenses due or accrued	66,617,621
Ceded reinsurance premiums payable	2,064,925
Amounts withheld or retained for the account of others	90,236
Amounts due to parent, subsidiaries and affiliates	58,687
Payable for securities	1,500,000
Liability for amounts held under uninsured plans	124,550,627
Aggregate write-ins for other liabilities	17,309,247
Total liabilities	460,398,090
Unassigned funds (surplus)	726,876,035
Total capital and surplus	726,876,035
Total liabilities capital, and surplus	\$1,187,274,125

Harvard Pilgrim Health Care, Inc.

Statement of Income
For the Year Ended December 31, 2020

	Per Annual Statement
Member Months	<u>2,979,079</u>
Net premium income	\$1,738,913,211
Change in unearned premium reserves and reserve for rate credits	<u>(7,535,026)</u>
Total revenues	\$1,731,378,185
Deductions:	
Hospital/medical benefits	1,074,387,873
Other professional services	53,897,997
Outside referrals	37,424,218
Emergency room and out-of-area	17,315,162
Prescription drugs	227,037,970
Incentive pool, withhold adjustment and bonus amounts	<u>40,670,696</u>
Subtotal	1,450,733,916
Net reinsurance recoveries	<u>22,511,114</u>
Total hospital and medical	1,428,222,802
Claims adjustment expenses	63,562,461
General administrative expenses	210,114,940
Increase in reserves for life and accident and health contracts	<u>2,730,327</u>
Total underwriting deductions	1,704,630,530
Net underwriting gain or loss	26,747,655
Net investment income earned	14,895,376
Net realized capital gains less capital gains tax	<u>6,038,242</u>
Net investment gain	20,933,618
Aggregate write-ins for other income or expenses	<u>(43,243,157)</u>
Net income, after capital gains tax and before all other federal income taxes	4,438,116
Federal and foreign income taxes incurred	<u>-</u>
Net income	<u>\$4,438,116</u>

Harvard Pilgrim Health Care, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Four-Year Period Ended December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital and surplus, December 31 prior year	\$638,006,918	\$552,747,959	\$477,807,504	\$456,802,057
Net income or (loss)	4,438,116	13,674,406	42,178,099	(8,244,176)
Change in net unrealized capital gains	73,529,306	72,435,593	27,916,790	18,343,344
Change in nonadmitted assets	9,942,962	(560,705)	4,528,488	11,388,484
Change in surplus notes	-	-	(413,795)	133,734
Aggregate write-ins for gains or (losses) in surplus	<u>958,733</u>	<u>(290,335)</u>	<u>730,873</u>	<u>(615,939)</u>
Net change in capital and surplus for the year	<u>88,869,117</u>	<u>85,258,959</u>	<u>74,940,455</u>	<u>21,005,447</u>
Capital and surplus, December 31 current year	<u><u>\$726,876,035</u></u>	<u><u>\$638,006,918</u></u>	<u><u>\$552,747,959</u></u>	<u><u>\$477,807,504</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 adverse findings, or 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.

INS Health Actuaries prepared independent estimates of the unpaid claim liabilities (“UCL”) as of December 31, 2020. For December 31, 2020, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. Estimates were developed by subtracting the claims paid-to-date from the actuarial incurred estimates. The actuarial estimates, as determined by INS, indicate that HPHC Inc.'s UCL is reasonable as of December 31, 2020. The Company’s premium deficiency reserve calculation was also reviewed and found to be reasonable as of December 31, 2020.

SUBSEQUENT EVENTS

On January 1, 2021, HPHI (formerly Tufts Health Plan, Inc.), entered into an agreement with Harvard Pilgrim Health Care, Inc. (“HPHC, Inc.”) to combine the two insurance holding company organizations under one parent company, HPHI. HPHI became the ultimate controlling person in the insurance holding company system. HPHI remained the sole corporate parent of Tufts Associated Health Maintenance Organization, Inc. (“TAHMO”). On July 1, 2021, HPHI changed its name to Point32Health, Inc.

Tufts Associated Health Plans, Inc. (“TAHP”), an affiliate, entered into a stock purchase agreement with United Healthcare Service, Inc. (“UHC”) in which UHC purchased 100% of TAHP’s ownership interest in Tufts Freedom Health Plans, Inc. (“THFP”). The sale was effective as of January 1, 2021. As a result, effective January 1, 2021, TAHP has no ownership interest in THFP. This agreement had no impact on the Company’s operations in 2020 or 2019.

Upon receiving approval from the Division, the Company made a \$25 million capital contribution payable to HPHC-NE on December 31, 2021. This contribution was settled in cash on February 22, 2022. In accordance with SSAP No. 72 this contribution will be treated as a Type 1 subsequent event and is reflected as a liability for HPHC as of December 31, 2021.

The Company recorded a \$20 million capital contribution receivable from its parent, Point32Health, Inc. on December 31, 2021. This contribution was settled in cash on February 22,

2022. In accordance with SSAP No. 72, this contribution will be treated as a Type 1 subsequent event and reflected as a non-admitted receivable as of December 31, 2021.

SUMMARY OF RECOMMENDATIONS

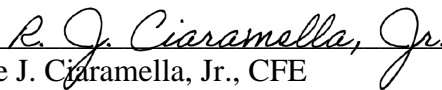
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

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 INS and the following Division examiners who participated in this examination hereby is acknowledged:

Carla Mallqui, CFE, Insurance Examiner II



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance