



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

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

Wellesley, Massachusetts

As of December 31, 2016

NAIC GROUP CODE 0595

NAIC COMPANY CODE 96911

EMPLOYER ID NUMBER 04-2452600

HARVARD PILGRIM HEALTH CARE, INC.

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	3
Company History	3
Management and Control	4
Board of Directors	4
Officers	5
Committees of the Board of Directors	5
Affiliated Companies	6
Organization Chart	6
Transactions and Agreements with Subsidiaries and Affiliates	7
Territory and Plan of Operation	8
Reinsurance	8
Financial Statements	9
Statement of Assets, Liabilities, Capital and Surplus	10
Statement of Income	11
Reconciliation of Capital and Surplus	12
Analysis of Changes in Financial Statements Resulting from the Examination	13
Comments of Financial Statement Items	13
Subsequent Events	14
Summary of Recommendations	14
Signature Page	15



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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Toll-free (877) 563-4467
<http://www.mass.gov/doi>

CHARLES D. BAKER
GOVERNOR

KARYN E. POLITO
LIEUTENANT GOVERNOR

JAY ASH
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

JOHN C. CHAPMAN
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

GARY D. ANDERSON
COMMISSIONER OF INSURANCE

May 30, 2018

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 93 Worcester Street, Wellesley, Massachusetts, 02481. 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, 2013 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, 2014 through December 31, 2016, 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 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 2014 through 2016. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

Representatives from the firm of KPMG LLP (“KPMG”) were retained 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. 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, 2016.

KPMG’s Information Technology Advisory Services personnel were engaged to review the Company’s Information Technology environment to assist in determining the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the examination.

COMPANY HISTORY

Harvard Pilgrim Health Care, 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.

HPHC, Inc. has the following wholly owned subsidiaries: Harvard Pilgrim Health Care of New England, Inc. ("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; HPHC Insurance Company, Inc. ("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. In 2012 HPHC Inc. formed a subsidiary, Harvard Pilgrim Health Care of Connecticut, Inc. ("HPHC-CT"), a non-profit company, to sell and open access to health maintenance organization products.

In addition to its wholly owned subsidiaries, HPHC, Inc. has 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.

In 2015 HPHC, Inc. entered into a joint venture, Benevera Health, with providers in NH. Benevera Health is a population health company that will analyze and utilize member entity data to provide active care management to patients.

Harvard Pilgrim Health Care, Inc.

Also, HPHC, Inc. is the sole member of the Harvard Pilgrim Health Care Institute, LLC (“Institute”), a Massachusetts limited liability company which performs research and research administration for grants and contracts awarded to HPHC, Inc.

The Company makes contributions to Harvard Pilgrim Health Care Foundation, Inc. and to Harvard Pilgrim Health Care Institute, LLC to support their ongoing operations. HPHC, Inc. pays expenses on behalf of the Foundation for which it is then reimbursed. The Institute initially funds certain expenses for grant related projects which are reimbursed to HPHC, Inc. These costs are then reimbursed by HPHC, Inc. to the Institute.

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, Harvard Pilgrim formed New HPHC Holding Corporation (“NEWCO”) as a new wholly owned Delaware C corporation. All of Harvard Pilgrim’s for-profit entities were contributed to NEWCO. NEWCO’s Board of Directors consists entirely of Harvard Pilgrim management.

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 May 2014 to remove the requirement that the Chair of the Patient Care Assessment Committee be a Board Member.

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, 2016, 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 Harvard University
Susan V. Duprey, Esq.	Attorney, Berstein Shur Law Firm
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
Joseph F. O'Donnell, MD	Professor Dartmouth College School of Medicine
Raymond Pawlicki	Retired SVP & CIO, Biogen
Eric H. Schultz	President and CEO, Harvard Pilgrim Health Care
Mary Ann Tocio	Retired – President & COO Bright Horizons Family Solutions
Hedwig Veith Whitney	Retired – SVP of Human Resources, Aspen Technology
Michael Shea	Retired – EVP, CFO and Treasurer, Mac-Gray Corporation

Officers

The officers of the corporation 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, 2016 were as follows:

<u>Officer</u>	<u>Title</u>
Eric H. Schultz	President and Chief Executive Officer
Charles R. Goheen	Chief Financial Officer and Treasurer
Tisa K. Hughes	Chief Legal Officer and Clerk

Committees of the Board of Directors

The Board may, by vote of a majority of the Directors then in office, elect or appoint one or more committees and delegate to any such committee or committees any or all of the powers of

Harvard Pilgrim Health Care, Inc.

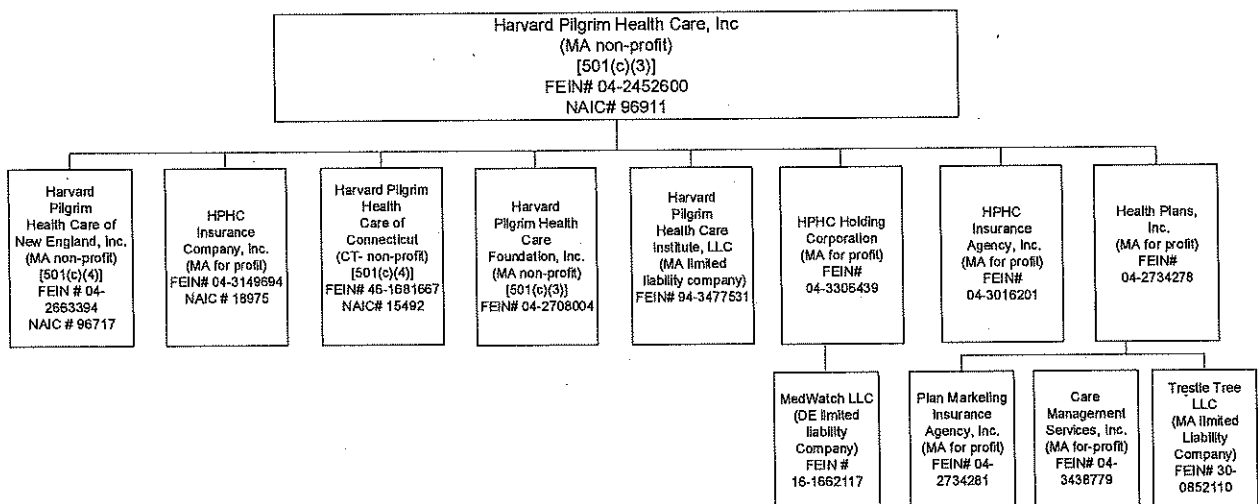
the Directors, except those which by law, by the Restated articles of organization or by the restated bylaws they are prohibited from delegating.

The Board appointed the Audit Committee, all of whom are independent directors, to oversee the Company's financial reporting processes and its systems of internal controls and compliance to ensure their integrity and effectiveness; the Finance Committee to oversee the financial condition of the Company to ensure the Company's financial strength and integrity; the Human Resources Committee to ensure implementation of policies and procedures, which enable the Company to attract, retain and develop the most talented staff available; to evaluate the performance of the President and Chief Executive Officer; the Nominating and Governance Committee to oversee the Board's organizational structure, composition and focus of activities to ensure the Board's effectiveness in supporting achievement of the Company's mission and the Patient Care Assessment Committee which develops, recommends for approval by the Board of Directors and implements the Patient Care Assessment Plan of the corporation and its affiliates approved from time to time by the Board of Directors pursuant to Massachusetts General Laws, Chapter 111, Section 203. The Patient Care Assessment Committee also approves the Qualified Patient Care Assessment coordinator for the Company and its affiliates.

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 M.G.L., 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”). In 2014 the agreement was amended to include HPHC-CT. 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, 2016.

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

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.

HPHC, Inc. 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

Harvard Pilgrim Health Care, Inc.

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.

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 runs through 2021.

Capital Contributions

In 2014, 2015 and 2016, HPHC, Inc. contributed \$9 million, \$1.8 million and \$1.3 million, respectively, in capital to HPHC Holdings as part of the MedWatch acquisition that occurred in 2014.

During 2016 HPHC, Inc. contributed \$75 million to HPHC Insurance Company of which \$10.1 million was a bond transfer. In 2015 the Company contributed \$40 million to HPHC Insurance Company of which \$15 million was a bond transfer. In 2014, the Company contributed \$22 million to the HPHC Insurance Company.

In 2014 HPHC, Inc. made capital contributions totaling \$16 million to a newly formed affiliate, HPHC-CT. An additional capital contribution of \$3 million was made in 2015.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in two states, with the largest numbers of insurance risks written in Massachusetts. The Company reported \$1,559 million of 2016 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 100% of certain hospital inpatient, outpatient and pharmacy claims in excess of the policy deductible, which is \$1.5 million (except for Maine which is \$1.0 million). The maximum recoverable under the reinsurance agreement is \$5.0 million per member per policy period. The impact of reinsurance recoveries on the statutory financial statements was immaterial for the years under exam for all three entities.

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, 2016. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2016

Statement of Income for the Year Ended December 31, 2016

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2016

Harvard Pilgrim Health Care, Inc.

Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2016

	Per Annual Statement
Assets	
Bonds	\$281,779,690
Common stocks	323,374,063
Real estate	23,088,576
Cash, cash equivalents and short-term investments	64,948,565
Other invested assets	51,102,118
Receivables for securities	750,000
Aggregate write-ins for invested assets	32,313,675
Subtotals, cash and invested assets	<u>777,356,687</u>
Investment income due and accrued	1,477,969
Premiums and considerations:	
Uncollected premiums and agents' balances	10,617,954
Accrued retrospective premium and contracts subject to redetermination	17,412,257
Reinsurance:	
Amounts recoverable from reinsurers	6,806,579
Amounts receivable relating to uninsured plans	42,258,225
Electronic data processing equipment and software	4,614,005
Receivables from parent, subsidiaries and affiliates	19,418,996
Health care and other amounts receivable	32,993,732
Aggregate write-ins for other than invested assets	3,837,195
Total assets	<u>\$916,793,599</u>
Liabilities	
Claims unpaid	\$119,537,145
Accrued medical incentive pool and bonus amounts	39,312,914
Unpaid claims adjustment expenses	1,684,804
Aggregate health policy reserves	17,705,617
Premiums received in advance	54,385,605
General Expenses due or accrued	74,572,088
Ceded reinsurance premiums payable	620,230
Amounts withheld or retained for the account of others	39,115
Borrowed money and interest thereon	24,803,712
Amounts due to parent, subsidiaries and affiliates	5,056,992
Liability for amounts held under uninsured plans	88,018,021
Aggregate write-ins for other liabilities	34,255,299
Total liabilities	<u>459,991,542</u>
Surplus notes	280,061
Unassigned funds (surplus)	456,521,996
Total capital and surplus	<u>456,802,057</u>
Total liabilities capital, and surplus	<u>\$916,793,599</u>

Harvard Pilgrim Health Care, Inc.

Statement of Income
For the Year Ended December 31, 2016

	Per Annual Statement
Member Months	<u>3,633,400</u>
Net premium income	\$1,773,056,585
Change in unearned premium reserves and reserve for rate credits	9,225,352
Total revenues	<u>\$1,782,281,937</u>
Deductions:	
Hospital/medical benefits	1,184,362,147
Other professional services	44,306,801
Outside referrals	43,956,438
Emergency room and out-of-area	18,958,665
Prescription drugs	254,667,510
Incentive pool, withhold adjustment and bonus amounts	39,057,735
Subtotal	<u>1,585,309,296</u>
Net reinsurance recoveries	2,196,030
Total hospital and medical	<u>1,583,113,266</u>
Claims adjustment expenses	41,288,558
General administrative expenses	179,728,391
Increase in reserves for life and accident and health contracts	(692,553)
Total underwriting deductions	<u>1,803,437,662</u>
Net underwriting gain or loss	(21,155,725)
Net investment income earned	10,288,696
Net realized capital gains less capital gains tax	38,306,136
Net investment gain	<u>48,594,832</u>
Aggregate write-ins for other income or expenses	(8,986,085)
Net income, after capital gains tax and before all other federal income taxes	18,453,022
Federal and foreign income taxes incurred	0
Net income	<u>\$18,453,022</u>

Harvard Pilgrim Health Care, Inc.

Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2016

	2016	2015	2014
Capital and surplus, December 31 prior year	\$458,118,109	\$548,653,033	\$496,611,551
Net income	18,453,022	(35,209,573)	14,282,980
Change in net unrealized capital gains	(59,641,949)	(39,340,261)	(19,839,313)
Change in nonadmitted assets	54,695,199	(8,684,177)	(6,665,507)
Change in surplus notes	(19,466,265)	(9,305,594)	(9,714,896)
Aggregate write-ins for gains or (losses) in surplus	4,643,941	2,004,681	73,978,218
Net change in capital and surplus for the year	(1,316,052)	(90,534,924)	52,041,482
Capital and surplus, December 31 current year	<u>\$456,802,057</u>	<u>\$458,118,109</u>	<u>\$548,653,033</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.

KPMG Health Actuaries prepared independent estimates of the unpaid claim liabilities (“UCL”) as of December 31, 2016 and prior periods. For December 31, 2016, 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. The actuarial estimates, as determined by KPMG Health Actuaries, indicate that HPHC, Inc.’s UCL are reasonable as of December 31, 2016. The Company’s premium deficiency reserve calculation was reviewed and found to be reasonable as of December 31, 2016.

On January 1, 2014, HPHC, Inc. became subject to an annual fee under section 9010 of the federal ACA. This annual fee was allocated to individual health insurers based on the ratio of the amount of the entity’s net premiums written to the amount of health insurance for any U.S. health risk that is written during 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. In December 2015, the Federal Government passed a budget bill imposing a one-year moratorium on the collection of the annual fee for 2017. In April 2016, the NAIC adopted Interpretation 16-01: *ACA Section 9010 Assessment 2017 Moratorium*, to clarify that a reporting entity will need to accrue a liability on January 1, 2016 for the fee to be paid in September 2016, but that the monthly segregation of surplus and the liability recognition on January 1, 2017 will not be required. Accordingly, there is no estimated health insurance fee payable reflected in special surplus.

As of December 31, 2016, the Company has written health insurance subject to ACA assessment, and expects to conduct health insurance business in 2017. The assessment is expected to have no impact on the Company’s risk based capital (“RBC”) due to the one-year moratorium on the collection of the annual fee for 2017 noted above.

SUBSEQUENT EVENTS

Effective January 1, 2017, HPHC, Inc. formed New HPHC Holding Corporation (“NEWCO”) as a new wholly owned Delaware C corporation. All of HPHC’s for-profit entities were contributed to NEWCO. NEWCO’s Board of Directors consists entirely of HPHC, Inc. management.

On January 1, 2018, Harvard Pilgrim will be subject to an annual fee under Section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the amount of the Insurance Company’s net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that was written during 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 1st of the year the fee is due. As of December 31, 2017, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2018, and estimates its portion of the annual health insurance industry fee to be payable on September 30, 2018 to be \$17.5 million. This amount is reflected in special surplus. This assignment is expected to impact RBC by 17.1 percentage points. Reporting the ACA assessment as of December 31, 2017, would not have triggered an RBC action level.

In March 2018, the Company received approval from Massachusetts Commissioner of Insurance to pay off in full the HEFA Bonds dated July 15, 1998 for approximately \$20.5 million, which represents the full remaining principal and interest due on July 1, 2018.

In May 2018, certain media outlets reported that Harvard Pilgrim Health Care, Inc. and Partners Healthcare, Inc. have been engaged in exploratory conversations regarding a potential alliance. As of the date of this Report, the Company has indicated that no agreement has been reached between the two parties.

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.

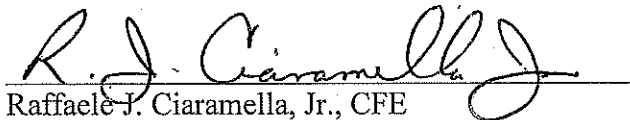
SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG-LLP and the following Division examiners who participated in this examination hereby is acknowledged:

Maria Gannon Supervising Examiner

Quangping Wei Examiner III

A handwritten signature in cursive script, reading "R. J. Ciaramella, Jr.", written over a horizontal line.

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