



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

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

Wellesley, Massachusetts

As of December 31, 2016

NAIC GROUP CODE 0595

NAIC COMPANY CODE 96717

EMPLOYERS ID NUMBER 04-2663394

HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, 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	3
Board of Directors	3
Officers	4
Affiliated Companies	4
Organization Chart	5
Transactions and Agreements with Subsidiaries and Affiliates	5
Territory and Plan of Operation	6
Reinsurance	6
Financial Statements	7
Statement of Assets, Liabilities, Capital and Surplus	8
Statement of Income	9
Reconciliation of Capital and Surplus	10
Analysis of Changes in Financial Statements Resulting from the Examination	11
Comments of 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

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 HEATH CARE OF NEW ENGLAND, 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 of New England, Inc. ("Company" or "New England") 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 of New England, Inc., a Massachusetts corporation, operates as a not-for-profit health plan, providing comprehensive health insurance, access to health care, and other related services in New Hampshire primarily to group, individuals and Medicare members through contracts with physicians, established primary care and multi-specialty physician groups, hospitals, and other health care providers. New England also administers comprehensive health benefit plans for certain self-insured employer groups. New England was incorporated on November 16, 1978, and commenced operations as a health plan on October 1, 1980. New England is a subsidiary of Harvard Pilgrim Health Care, Inc. a Massachusetts corporation, operating as a not-for-profit health plan.

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. In November 2014, the bylaws were amended to remove the restriction on the movement of surplus out of the entity without regulatory permission. Both the Massachusetts and New Hampshire regulators were informed of this change and had no objection.

Board of Directors

The Board shall be composed of a number of Directors to be fixed each year by the member and designated at the annual meeting or at any special meeting in lieu thereof. Each Director shall serve until the next annual meeting or special meeting held in lieu thereof, and until his/her successor is chosen.

At December 31, 2016, the Board was comprised of three Directors, which is in compliance with the Company's bylaws.

Harvard Pilgrim Health Care of New England, Inc.

The Directors of the Company at December 31, 2016, are as follows:

<u>Director</u>	<u>Title</u>
Charles R. Goheen	Chief Financial Officer and Treasurer Harvard Pilgrim Health Care, Inc.
Tisa K. Hughes	Chief Legal Officer and Clerk Harvard Pilgrim Health Care, Inc.
Eric H. Schultz	President and Chief Executive Officer Harvard Pilgrim Health Care, Inc.

Officers

The Company's officers consist of a Chairperson, President, Treasurer and Clerk to serve for terms of one year or until their successors are elected and duly qualified. The Board may appoint such additional officers as it shall deem fit. The officers so elected and appointed shall be the officers of the Company. The President shall be the Chief Executive Officer of the Company.

The Officers of the Company at December 31, 2016, are as follows:

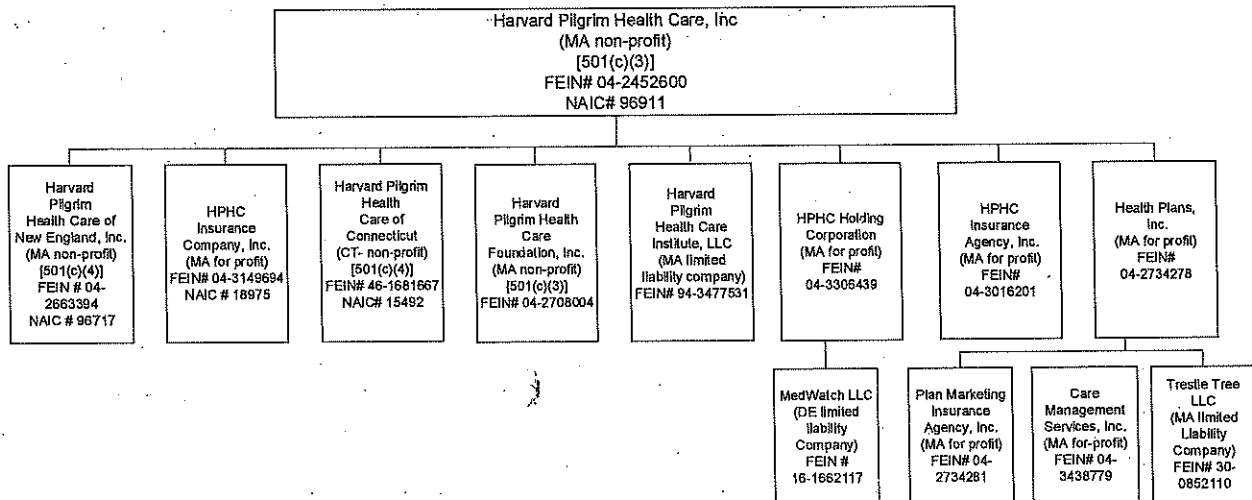
<u>Officer</u>	<u>Title</u>
Eric H. Schultz	President & Chief Executive Officer
Charles R. Goheen	Chief Financial Officer and Treasurer
Tisa K. Hughes	Chief Legal Officer and Clerk

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.

Harvard Pilgrim Health Care of New England, Inc.

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Guaranty and Indemnity Agreement

The Company, HPHC, Inc., and HPHC Insurance Company, Inc. participate in an intercompany Guaranty and Indemnity Agreement (“G&I Agreement”). In 2014 the agreement was amended to include Harvard Pilgrim Health Care of Connecticut, Inc. Under the terms of the G&I Agreement, each company guarantees the payment and performance of each other. In addition, each company is jointly and severally liable for all obligations that may arise out of this G&I Agreement. New England has no contingent liabilities related to this G&I Agreement as of December 31, 2016.

Administrative Services Agreements

The Company has a Management and Medical Services Agreement (“MMSA”) with HPHC, Inc., which provides for an allocation of hospital and medical administrative costs from Harvard Pilgrim to the Company. Administrative expenses are charged to New England based on Harvard Pilgrim’s departmental cost allocation methodology.

Return of Capital

In September 2015 HPHC-NE made a \$10 million return of capital payment to HPHC, Inc. This was approved by the Division.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Massachusetts and New Hampshire. The Company reported no direct premium written in Massachusetts in 2016 and \$480 million of direct premium written in New Hampshire in 2016.

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. No significant adverse practices were identified.

REINSURANCE

The Company carries reinsurance against excessive utilization on a per-member basis. Under the policy, the Company 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 Heath Care of New England, Inc.

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

	Per Annual Statement
Assets	
Bonds	\$124,437,324
Cash, cash equivalents and short-term investments	6,015,330
Subtotals, cash and invested assets	130,452,654
Investment income due and accrued	504,501
Premiums and considerations:	
Uncollected premiums and agents' balances	2,943,004
Reinsurance:	
Amounts recoverable from reinsurers	4,170,016
Amounts receivable relating to uninsured plans	1,362,616
Electronic data processing equipment and software	
Receivables from parent, subsidiaries and affiliates	
Health care and other amounts receivable	11,848,167
Aggregate write-ins for other than invested assets	
Total assets	\$151,280,958
Liabilities	
Claims unpaid	\$40,016,302
Accrued medical incentive pool and bonus amounts	2,276,339
Unpaid claims adjustment expenses	615,113
Aggregate health policy reserves	6,081,755
Premiums received in advance	12,161,903
General Expenses due or accrued	8,083,688
Ceded reinsurance premiums payable	591,932
Amounts due to parent, subsidiaries and affiliates	18,641,261
Liability for amounts held under uninsured plans	2,726,687
Total liabilities	91,194,980
Gross Paid in and contributed surplus	15,000,000
Unassigned funds (surplus)	45,085,978
Total capital and surplus	60,085,978
Total liabilities capital, and surplus	\$151,280,958

Harvard Pilgrim Health Care of New England, Inc.

Statement of Income

For the Year Ended December 31, 2016

	Per
	Annual
Member Months	Statement
	1,074,120
Net premium income	\$479,239,570
Change in unearned premium reserves and reserve for rate credits	2,923,740
Total revenues	\$482,163,310
Deductions:	
Hospital/medical benefits	294,714,954
Other professional services	14,939,725
Outside referrals	21,885,076
Emergency room and out-of-area	7,714,614
Prescription drugs	80,251,201
Incentive pool, withhold adjustment and bonus amounts	(4,457,588)
Subtotal	415,047,982
Net reinsurance recoveries	3,268,659
Total hospital and medical	411,779,323
Claims adjustment expenses	13,786,285
General administrative expenses	66,830,387
Increase in reserves for life and accident and health contracts	(113,830)
Total underwriting deductions	492,282,165
Net underwriting gain or loss	(10,118,855)
Net investment income earned	2,377,793
Net realized capital gains less capital gains tax	8,907
Net investment gain	2,386,700
Aggregate write-ins for other income or expenses	0
Net income, after capital gains tax and before all other federal income taxes	(7,732,155)
Federal and foreign income taxes incurred	0
Net income	(\$7,732,155)

Harvard Pilgrim Health Care of New England, 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	\$68,009,423	\$59,139,864	\$59,441,721
Net income	(7,732,155)	18,441,600	6,909,573
Change in net unrealized capital gains	(11,534)	-	-
Change in nonadmitted assets	(179,756)	427,959	4,788,570
Surplus adjustments: Paid in	-	(10,000,000)	-
Dividends to stockholders	-	-	(12,000,000)
Net change in capital and surplus for the year	(7,923,445)	8,869,559	(301,857)
Capital and surplus, December 31 current year	\$60,085,978	\$68,009,423	\$59,139,864

**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 New England'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, New England became subject to an annual fee under section 9010 of the federal ACA. This annual fee is allocated to individual health insurers based on the ratio of New England's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. 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 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, New England 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, Inc.'s for-profit entities were contributed to NEWCO. NEWCO's Board of Directors consists entirely of HPHC, Inc. management.

On January 1, 2018, New England 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, New England 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 \$6.0 million. This amount is reflected in special surplus. This assignment is expected to impact RBC by 43.1 percentage points. Reporting the ACA assessment as of December 31, 2017, would not have triggered an RBC action level.

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.

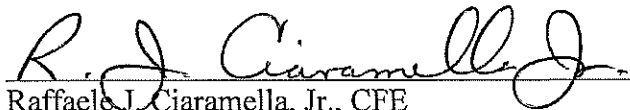
SIGNATURE PAGE

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 black ink, 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