



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

***REPORT OF EXAMINATION OF THE***

**Health New England, Inc.**

**Springfield, Massachusetts**

**As of December 31, 2019**

**NAIC GROUP CODE 04756**

**NAIC COMPANY CODE 95673**

**EMPLOYER ID NUMBER 04-2864973**

# HEALTH NEW ENGLAND, INC.

## TABLE OF CONTENTS

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



**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

**MIKE KENNEALY**  
SECRETARY OF HOUSING AND  
ECONOMIC DEVELOPMENT

**EDWARD A. PALLESCHI**  
UNDERSECRETARY OF CONSUMER AFFAIRS  
AND BUSINESS REGULATION

**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 28, 2021

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 ("M.G.L."), Chapter 175, Section 4 and Chapter 176G, Section 10 and other applicable statutes, an examination has been made of the financial condition and affairs of

**HEALTH NEW ENGLAND, INC.**

at its home office located at 1 Monarch Place #1500, Springfield, MA 01144. Due to the COVID-19 pandemic, the examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Health New England, Inc. (“HNE” or “Company”) was last examined as of December 31, 2015 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the 4-year period from January 1, 2016 through December 31, 2019, 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 (“Handbook”), the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

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

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Deloitte & Touche LLP (“Deloitte”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2016 through 2019. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. 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.

KPMG LLP (“KPMG”) was engaged to perform certain agreed upon procedures, which are in compliance with the NAIC *Financial Condition Examiners’ Handbook*. KPMG’s Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company’s reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2019. KPMG’s Information Technology Advisory Services personnel were engaged to review the adequacy and effectiveness of the Information Technology systems controls to determine the level of reliance to be placed on the information generated by the data processing systems. All procedures were performed under the management

and control and general supervision of the examination staff of the Division.

This examination was conducted as part of a coordinated group financial examination in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The Division acted as the Lead State, and coordinated with the participating state, Connecticut Insurance Department.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report. There were a number of internal control improvements recommendations identified by the examination team in the previous report of examination. The Company has implemented numerous improvements to mitigate the risks associated with identified control deficiencies.

### **COMPANY HISTORY**

#### **General**

The Company is a Non-Profit Health Maintenance Organization (“HMO”) domiciled in the State of Massachusetts. HNE was incorporated on May 17, 1985 and received a license from the Massachusetts Commissioner of Insurance on November 27, 1985 and commenced business on January 1, 1986. The U.S. Department of Health and Human Services declared HNE an HMO on June 1, 1987.

The Company was formed by capital contributions from three hospitals, including Baystate Health, Inc. (“Baystate”) and a group of Baystate affiliated private care physicians. Since its formation, HNE has undergone a reorganization, the results of which are Baystate’s 100% ownership of the Company.

On January 1, 2013, the Company reorganized and converted to a not-for-profit corporation. The Department of the Treasury granted this conversion on November 30, 2015, effective the date of the reorganization.

HNE operates as an IPA-model HMO with business in five counties in the State of Massachusetts (Berkshire, Franklin, Hampden, Hampshire and Worcester). The Company’s primary lines of business consist of Comprehensive Group, Comprehensive Individual, Medicare, and Medicaid. In addition, the Company conducts third party administrator (“TPA”) business through a downstream subsidiary, HNE Advisory Services (HAS), and has two additional subsidiaries: Health New England Insurance Company and HNE of Connecticut, Inc., providing Medicare Supplement in the State of Massachusetts and operating as an HMO in Connecticut, respectively. HNE of Connecticut started accepting members as of January 1, 2015. Since January 1, 2018 HNE of Connecticut no longer offers health insurance but continues to be in existence. In addition, HNE has three downstream subsidiaries, which are direct subsidiaries of HNE Holding Company. These subsidiaries are HNE Insurance Services, HNE Advisory Services, Inc., and HNE Insurance Company, Inc.

## Health New England, Inc.

As part of the Commonwealth of Massachusetts redesign of its Mass Health program, on March 1, 2018, the Company, in partnership with the Baystate Health Care Alliance (“BHCA”), launched its Be Healthy Partnership Plan (the “Partnership”). BHCA, which consists of the four Baystate Health community health centers and Caring Health, is the Accountable Care Organization, and the Company is the Managed Care Organization in the Partnership. The goal of the Partnership is to transform health care delivery to all Medicaid recipients. The Partnership operates under a global risk arrangement for the cost of members’ care and receives Delivery System Reform Incentive Payment funds from the Commonwealth of Massachusetts to support infrastructure creation.

### **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 reviewed and they indicate 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 provide guidance related to corporate governance, including the roles and responsibilities of the Board and officers of the Company.

Regular meetings of the Board of Directors shall be held from time to time at the call of the Chair of the Board of Directors or the President of the Member and shall be held at such places within or without the Commonwealth of Massachusetts and at such times as the Chair of the Board of Directors or President of the Member may from time to time determine.

#### **Board of Directors**

According to the bylaws, “the Board shall consist of up to sixteen (16) Directors, consisting of four Directors serving *ex officio* and up to twelve (12) Directors elected by the Member at the annual meeting of the Member or at a special meeting called for the purpose. The Directors serving *ex officio* shall be: the Chief Executive Officer of Baystate Health Inc., or an individual designated by him or her in writing to serve as acting Chair for one or more meetings of the Board, and the President/Chief Executive Officer of the Corporation.” As of December 31, 2019, the Company's Board of Directors consisted of the following individuals:

#### **Name of Director**

#### **Title**

Mark Keroack, MD (Chair) *ex officio*

Carol Campbell

President & CEO, Baystate Health Inc.

President & Founder, Chicopee Industrial Contractors, Inc.

## Health New England, Inc.

Dennis Chalke	Sr. VP Finance, CFO, & Treasurer, Baystate Health Inc.
Joel Feinman, PhD	President, Valley Medical Group
Marion McGowan, PhD	President and CEO, Health New England, Inc.
Robert Bacon	President, Elm Electrical, Inc.
Tania Barber	President and CEO, Caring Health Center
James Conlon	Retired principal of JF Conlon and Associates
Richard Segool, MD	Managing Partner, Pioneer Valley Pediatrics, Vice-Chairman, Health New England Board of Directors
Amy Jamrog	President, The Jamrog Group
Richard B. Steele	Managing Partner, Longmeadow Capital
Mark R Tolosky, Esq.	President and CEO, Retired, Baystate Health, Inc.
Howard Trietsch, MD	Baystate OB/GYN Group
William Webber	Partner, Retired, Ernst and Young

### Officers

According to the Company's bylaws, "the officers of the Corporation shall consist of a Chair of the Board, President/Chief Executive Officer, a Treasurer, a Secretary and such other Officers with such other titles as the Board of Directors may determine from time to time, including, but not limited to, a Vice Chair of the Board, one or more Vice Presidents, Assistant Treasurers and Assistant Secretaries and such other officers as may be appointed pursuant to these bylaws."

Senior Officers of the Company as of December 31, 2019 were as follows:

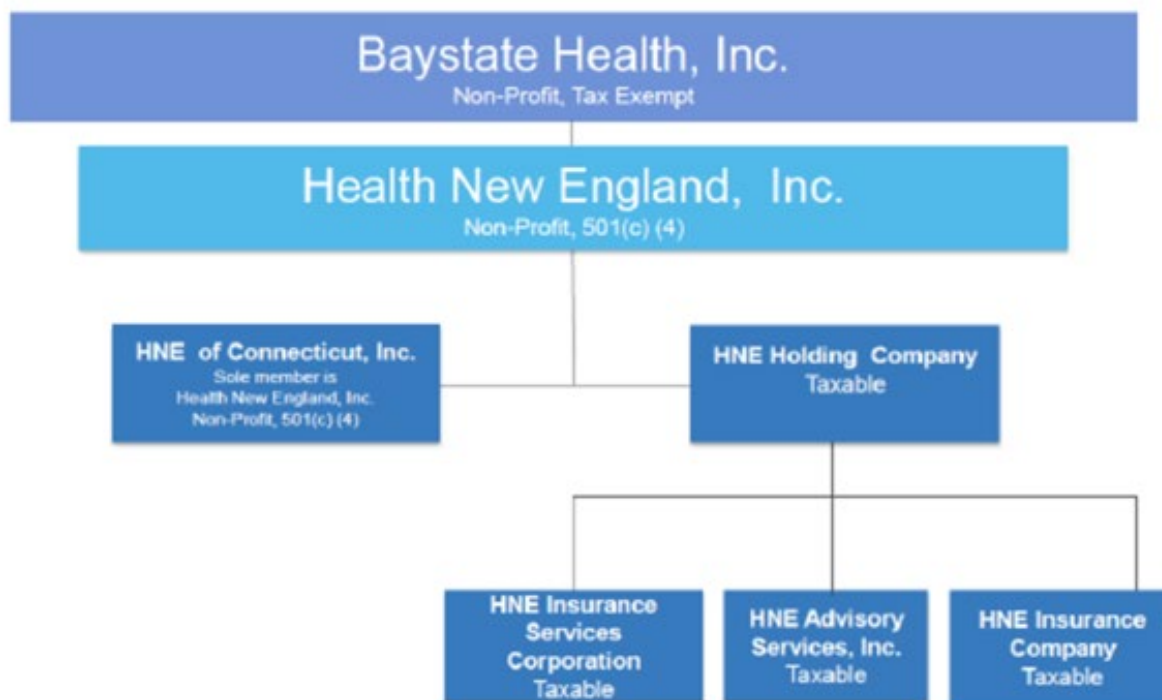
<u>Name of Officers</u>	<u>Title</u>
Mark Keroack	Chairman
Richard Segool	Vice Chairman
Marion McGowan, PhD	President and CEO Health New England, Inc.
Judith Danek	Secretary
Dennis Chalke	Treasurer
Kenneth Bernard	Vice President, IT
Laurie Gianturco, MD	Vice President, Chief Medical Director
Jody Gross	Vice President Operations and Government Programs
Keith Ledoux	Vice President, Sales and Marketing
Jason Rio	Director of Compliance
Steven Sigal	Vice President & Chief Financial Officer
Susan O'Connor	Vice President & General Counsel

### Affiliated Companies

As stated in the Insurance Holding Company System Form B 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 Laws, Chapter 175, Section 206C and 211 CMR 7.00. Baystate Health, Inc. is the ultimate controlling person of the holding system.

## Organizational Chart

The following documents the Company's organizational chart as of December 31, 2019:



## Transactions and Agreements with Subsidiaries and Affiliates

The following is a summary of each of the Intercompany Agreements between the entities within the holding structure documented in the above organizational chart:

*Capital Maintenance Agreement:* Effective November 13, 2014, HNE entered an agreement with HNE of Connecticut in which HNE agrees to provide HNE of Connecticut with sufficient funds to maintain capital in accordance with Connecticut State law and the requirements of the Connecticut Department of Insurance.

*Surplus Note:* In December 2015, the Company received a capital contribution of \$20,000,000 in the form of a Surplus Note from its parent, Baystate Health.

*Professional Service Arrangement ("PSA"):* Effective January 1, 2015, HNE entered into an agreement with one of the Company's largest providers, Valley Medical Group ("VMG"). The agreement includes a PSA and a practice lease with concurrent six-year terms. Under the agreement, HNE will be entitled to receive essentially all of VMG's practice revenues and will also be responsible for VMG's practice expenses.



## Health New England, Inc.

*Provider Agreement:* Under the terms of the provider services agreement with Baycare Health Partners, Inc. HNE pays a number of Baystate providers for services such as: Inpatient Services, Outpatient Services, Physician Services, and other infrastructure and care management services. A provider fee schedule for the services provided is included in the agreement and updated on an annual basis. In addition, the fee schedule provides for shared savings through a risk-sharing arrangement.

*Employer Group Agreement:* This agreement, effective between HNE, HNE Advisory Services, and Baystate; provides for third party administrative services for Baystate's self-insured employee health insurance plans. Baystate pays a per employee per month administrative fee for services provided.

*Intercompany Services Agreement:* Through this agreement between HNE, HNE Advisory Services, HNE of Connecticut, HNE Insurance Company, HNE Holding Company, and HNE Insurance Services; HNE provides for the administrative and other services between HNE and its subsidiaries. Services provided by HNE include:

- Medical services,
- Marketing and planning functions,
- Enrollment services,
- Claims processing, screening, and auditing services,
- Accounting services,
- Member and provider relations,
- Quality assurance,
- Utilization review and peer review services, and
- Other administrative services.

In exchange for the services HNE Advisory Services pays the Company \$1 million dollars per month approximately 95% of its net (after broker commissions) administrative services revenue on a monthly basis as compensation for services. In addition, HNE Advisory Services pays a proportional share of HNE's total administrative costs on a monthly basis based on the proportion of HNE Advisory Services' member months to the sum of HNE and HNE Advisory Services member months. As of December 31, 2019, HAS had a net deficit of approximately \$9M. As the Company is committed to funding HAS, a liability has been recorded in this amount as of December 31, 2019. This liability has been offset against receivables from HAS recorded in due from affiliates in the annual statement.

HNE of Connecticut, HNE Insurance Services, and HNE Insurance Company pay a proportional share of HNE's total administrative costs on a monthly basis determined by assessing whether each entity used a particular expense and the proportion of each expense that is attributed to each entity.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in Massachusetts and operates in the five counties of Western Massachusetts including: Berkshire, Franklin, Hampden, Hampshire, and Worcester.

## **REINSURANCE**

### **Assumed**

The Company is not a party to any agreements for assumed reinsurance.

### **Ceded**

The Company is a party to an HMO reinsurance agreement executed with Zurich Insurance Group (Zurich). This reinsurance agreement was in effect for each 2017, 2018 and 2019. In 2016, the Company was party to an excess risk reinsurance agreement executed with RGA Reinsurance Company. The reinsurance contract provided for coverage of any HNE member's individual inpatient and outpatient hospital facility claims in excess of \$500,000 for 2017 and 2016, and in excess of \$550,000 for 2018 and 2019, subject to certain limitations. Additionally, an aggregating deductible of \$750,000 applied to all individuals who met the individual deductible threshold of \$500,000 for 2016 and 2017 and \$550,000 for 2018 and 2019. A reinsurance limit of \$5 million per Member per period existed during 2016, 2017 and 2019.

## **FINANCIAL STATEMENTS**

The following financial statements 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, 2019. The financial statements are the responsibility of Company management.

Statement of Admitted Assets, Liabilities and Net Worth as of December 31, 2019

Statement of Revenue and Expenses for the Year Ended December 31, 2019

Changes in Statutory Net Worth for Each Year in the Four-Year Period Ended December 31, 2019

# Health New England, Inc.

## Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2019

	Per Annual Statement
<b>Assets</b>	
Bonds	\$106,897,833
Common stocks	23,818,199
Cash, cash equivalents and short-term investments	32,312,720
Other invested assets	4,308,773
Receivables for securities	208,409
Subtotals, cash and invested assets	<u>167,545,934</u>
Investment income due and accrued	653,813
Premiums and considerations:	
Uncollected premiums and agents' balances	30,122,460
Reinsurance:	
Amounts recoverable from reinsurers	1,257,060
Electronic data processing equipment and software	2,366,469
Receivables from parent, subsidiaries and affiliates	16,114,425
Health care and other amounts receivable	9,666,384
Aggregate write-ins for other than invested assets	86,824
Total assets	<u><u>\$227,813,369</u></u>
<b>Liabilities</b>	
Claims unpaid	\$85,184,060
Accrued medical incentive pool and bonus amounts	7,525,989
Unpaid claims adjustment expenses	5,203,096
Aggregate health policy reserves	3,000,000
Premiums received in advance	12,728,671
General expenses due or accrued	25,669,858
Amounts withheld or retained for the account of others	1,261,098
Amounts due to parent, subsidiaries and affiliates	170,640
Aggregate write-ins for other liabilities	86,824
Total liabilities	<u><u>140,830,236</u></u>
Gross paid in and contributed surplus	6,125,000
Surplus notes	20,000,000
Unassigned funds (surplus)	60,858,133
Total capital and surplus	<u><u>86,983,133</u></u>
Total liabilities capital, and surplus	<u><u>\$227,813,369</u></u>

# Health New England, Inc.

## Statement of Income For the Year Ended December 31, 2019

	Per Annual Statement
<b>Member Months</b>	<u>1,300,861</u>
Net premium income	\$728,266,282
Aggregate write-ins for other health care related revenues	865,305
Total revenues	<u>\$729,131,587</u>
<b>Deductions:</b>	
Hospital/medical benefits	440,943,645
Other professional services	2,001,434
Outside referrals	34,941,049
Emergency room and out-of-area	34,930,672
Prescription drugs	126,338,221
Aggregate write-ins for other hospital and medical	13,428,708
Incentive pool, withhold adjustments and bonus amounts	7,525,989
Subtotal	<u>660,109,718</u>
Net reinsurance recoveries	<u>1,892,813</u>
Total hospital and medical	<u>658,216,905</u>
Claims adjustment expenses	23,976,763
General administrative expenses	46,977,975
Increase in reserves for life and accident and health contracts	318,000
Total underwriting deductions	<u>729,489,643</u>
Net underwriting gain or loss	(358,056)
Net investment income earned	2,957,315
Net realized capital gains (losses) less capital gains tax	(102,679)
Net investment gain	<u>2,854,636</u>
Aggregate write-ins for other income or expenses	-
Net income, after capital gains tax and before all other federal income taxes	<u>2,496,580</u>
Federal and foreign income taxes incurred	-
Net income	<u>\$2,496,580</u>

Health New England, Inc.

Reconciliation of Capital and Surplus

For Each Year in the Four-Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and surplus, December 31 prior year	\$80,863,830	\$83,923,602	\$57,459,954	\$40,108,871
Net income	2,496,580	6,477,593	20,876,237	21,505,527
Change in net unrealized capital gains	(6,807,893)	(621,828)	211,441	1,444,186
Change in net deferred income tax				
Change in nonadmitted assets	<u>10,430,616</u>	<u>(8,915,537)</u>	<u>5,375,970</u>	<u>(5,598,630)</u>
Net change in capital and surplus for the year	<u>6,119,303</u>	<u>(3,059,772)</u>	<u>26,463,648</u>	<u>17,351,083</u>
Capital and surplus, December 31 current year	<u><u>\$86,983,133</u></u>	<u><u>\$80,863,830</u></u>	<u><u>\$83,923,602</u></u>	<u><u>\$57,459,954</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 this examination.

### **COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

#### **Claims Unpaid**

The Company uses estimates for determining its claims incurred but not yet reported which are based on 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 eliminated liabilities as the claims are ultimately settled. KPMG actuaries performed independent testing which showed that the Company's liabilities were within range of reasonable estimates.

KPMG actuaries prepared independent estimates of Unpaid Claim Liabilities ("UCL") as of December 31, 2019 using historical claims data displaying claims paid by incurred month. Payments through June 30, 2020 were included providing six months of hindsight. A range of estimated incurred claims was developed based on the actuaries' view of a range of assumptions that could be developed from a reasonable analysis of the factors that impact the Company's reserves. The range of estimates was derived by subtracting the claims paid to-date from the actuary's range of incurred claims estimates. The HNE booked reserves fell within the actuary's estimated range.

#### **Premium Deficiency Reserve**

The Company did not hold a Premium Deficiency Reserve ("PDR") as of December 31, 2019. KPMG determined this was appropriate, and a PDR was not required for any of the Company's lines of business as of December 31, 2019.

### **SUBSEQUENT EVENTS**

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business it underwrites. The Division will continue to monitor how the pandemic might impact the Company.

**SUMMARY OF RECOMMENDATIONS**

No significant recommendations were identified during the examination 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 who participated in the examination is hereby acknowledged.

*John M Curran*

---

John M. Curran, CFE  
Supervising Examiner  
Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance