



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

Health New England, Inc.

Springfield, Massachusetts

As of December 31, 2022

NAIC GROUP CODE 04756

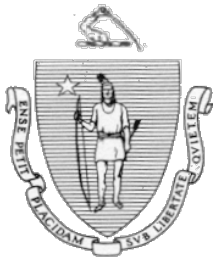
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EMPLOYERS ID NO. 04-2864973

HEALTH NEW ENGLAND, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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May 30, 2024

Honorable Rachel M. Davison
Acting Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Acting 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.

The Company's home office is located at 1 Monarch Place #1500, Springfield, MA 01144. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Health New England, Inc. (“HNE” or “Company”) was last examined as of December 31, 2019 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, 2020 through December 31, 2022, 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 2020 through 2022. 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, 2022. 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.

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.

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 New England, Inc.

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 shall be held from time to time at the call of the Chair of the Board 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 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, 2022, the Company's Board consisted of the following individuals:

<u>Name of Director</u>	<u>Title</u>
Mark Keroack, MD Chairman (<i>ex-officio</i>)	President & CEO, Baystate Health Inc.
Richard Segool, MD Vice Chairman	Managing Partner, Pioneer Valley Pediatrics
Richard Swift, (<i>ex-officio</i>)	President & CEO, Health New England, Inc.
Tania Barber	President & CEO, Caring Health Center

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Wyndolyn Bell, MD	President, Wyndolyn C. Bell Encore Enterprises, LLC
Harriet DeVerry	SVP Commercial Bank Group, Webster Bank
Pia Flanagan, Esq.	Chief Operating Officer, CEO Action for Racial Equity
Raymond McCarthy	SVP and Chief Financial Officer, Baystate Health, Inc.
Marion McGowan, PhD	SVP and Chief Operating Officer, Baystate Health, Inc.
Kathleen Oestreich	Partner, Eastwick Strategy Group
Andrea Piatt, PhD	Founder & CEO Commonwealth Psychology Associates, LLC
Richard B. Steele	Managing Partner, Longmeadow Capital
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 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, 2022 were as follows:

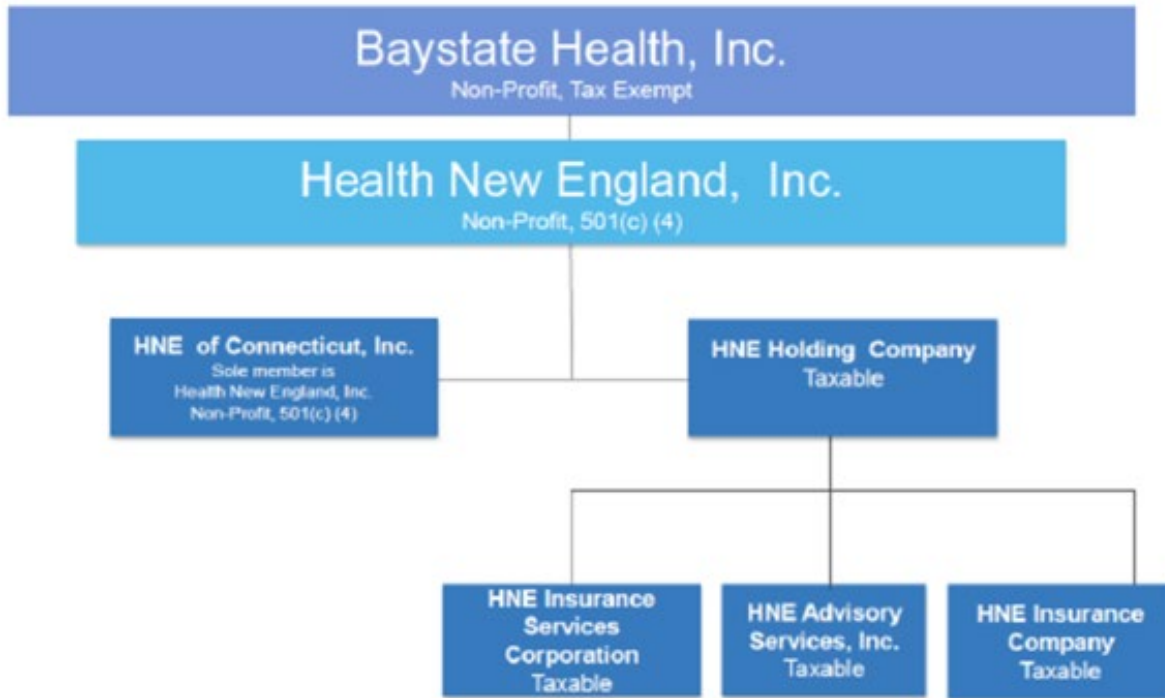
<u>Name of Officers</u>	<u>Title</u>
Mark Keroack, MD	Chairman
Richard Segool, MD	Vice Chairman
Richard Swift	President and CEO Health New England, Inc.
Lisa Cohen	Chief Financial Officer
Judith Danek	Secretary
Raymond McCarthy	Treasurer
Casey Hossa	Vice President, IT
Kate McIntosh	Vice President, Chief Medical Director
Jody Gross	Vice President Operations and Government Programs
Keith LeDoux	Vice President, Sales and Marketing
Jason Rio	Compliance Officer
Susan O'Connor, Esq.	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, 2022:



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.

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.

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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, HAS 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 HAS member months. As of December 31, 2022, HAS had a net deficit of approximately \$12M. As the Company is committed to funding HAS, a liability has been recorded in this amount as of December 31, 2022. 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.

In 2022 the Company infused \$1,400,000 of capital into its subsidiary, HNE Holding Company which then transferred the funds into its subsidiary, HNE Insurance Company, Inc.

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 with Ironshore Indemnity Inc. The agreement covers 90% of expenses for commercial members in excess of \$750,000 retention per member with unlimited benefits. Medicare members are covered for 90% of expenses in excess of a \$1,000,000 retention per member with a maximum benefit of \$2,000,000 per member.

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, 2022. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital, and Surplus as of December 31, 2022

Statement of Revenues and Expenses for the Year Ended December 31, 2022

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2022

Health New England, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2022

	<u>As Reported by the Company</u>
Assets	
Bonds	\$ 152,758,717
Common stocks	23,373,802
Cash, cash equivalents and short-term investments	81,055,498
Other invested assets	4,308,479
Receivables for securities	43,844
Subtotals, cash and invested assets	<u>261,540,340</u>
Investment income due and accrued	716,130
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,269,221
Reinsurance: Amounts recoverable from reinsurers	6,324,629
Electronic data processing equipment and software	1,877,743
Receivables from parent, subsidiaries and affiliates	6,994,701
Health care and other amounts receivable	12,345,644
Aggregate write-ins for other than invested assets	1,097,666
Total Assets	<u><u>\$ 295,166,074</u></u>

Health New England, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2022

	<u>As Reported by the Company</u>
Liabilities	
Claims unpaid	\$ 97,446,892
Accrued medical incentive pool and bonus amounts	25,631,534
Unpaid claims adjustment expenses	4,770,987
Aggregate health policy reserves	10,943,547
Premiums received in advance	16,231,356
General expenses due or accrued	17,389,669
Remittances and items not allocated	615,186
Amounts due to parents, subsidiaries and affiliates	139,852
Aggregate write-ins for other liabilities	30,078,032
 Total Liabilities	 <u>203,247,055</u>
 Gross paid in and contributed surplus	 6,125,000
Surplus notes	20,000,000
Unassigned funds (surplus)	<u>65,794,019</u>
Total capital and surplus	<u>91,919,019</u>
 Total Liabilities, Capital, and Surplus	 <u><u>\$ 295,166,074</u></u>

Health New England, Inc.
Statement of Revenue and Expenses
As of December 31, 2022

	As Reported by the Company
Net premium income	\$ 922,996,572
Aggregate write-ins for other health care related revenues	4,122,928
Total revenues	<u>927,119,500</u>
Deductions:	
Hospital/medical benefits	528,815,117
Other professional services	137,636
Outside referrals	53,077,697
Emergency room and out-of-area	46,064,815
Prescription drugs	170,522,848
Aggregate write-ins for other hospital and medical	15,884,623
Incentive pool, withhold adjustments and bonus amounts	20,873,257
Subtotal	<u>835,375,993</u>
Net reinsurance recoveries	7,662,374
Total hospital and medical	<u>827,713,619</u>
Claims adjustment expenses	24,193,090
General administrative expenses	74,145,148
Increase in reserves for life and accident and health contracts	(2,953,023)
Total underwriting deductions	<u>923,098,834</u>
Net underwriting gain or loss	4,020,666
Net investment income earned	3,947,315
Net realized capital gains (losses) less capital gains tax	(980,453)
Net investment gain	<u>2,966,862</u>
Net income, after capital gains tax and before all other federal income taxes	6,987,528
Federal and foreign income taxes incurred	0
Net income	<u>\$ 6,987,528</u>

Health New England, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Capital and surplus as of December 31, prior year	\$ 92,909,850	\$ 110,519,203	\$ 86,983,133
Net income or (loss)	6,987,528	(11,322,363)	16,859,006
Change in net unrealized capital gains or (losses)	(6,634,537)	(10,442,470)	950,505
Change in non-admitted assets	(1,343,822)	4,155,480	1,934,979
Aggregate write-ins for gains or (losses) in surplus	<u> </u>	<u> </u>	<u>3,791,580</u>
Net change capital and surplus for the year	<u>(990,831)</u>	<u>(17,609,353)</u>	<u>23,536,070</u>
Capital and surplus as of December 31, current year	<u>\$ 91,919,019</u>	<u>\$ 92,909,850</u>	<u>\$ 110,519,203</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, 2022 using historical claims data displaying claims paid by incurred month. Payments through June 30, 2023 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 additional six months of data provided actuaries with more certainty around the estimates and the paid claim trends, and therefore allowed them to set a narrower range than usual analyses. The Mass Behavioral Health Partnership line of business experienced adverse claim development combined with large claims experience for the Commercial line of business and as a result the Company's booked reserve fell slightly outside the range of hindsight estimates. Given what the Company knew in December 2022 when the reserves were calculated and the reserve processes that were in place, the Company's reserve is reasonable.

Premium Deficiency Reserve

The Company did not hold a Premium Deficiency Reserve ("PDR") as of December 31, 2022. The PDR reserves for the Company are related to three lines of business: "Commercial", "Medicare Advantage", and "Medicaid". The Company reviewed the prior year experience, their pricing strategy, and the current claim trends. They found the three lines would have better than expected claims experience in the expected market environment. The projection included future premium rates and expected claim trends which indicated no need for a PDR. The PDR reserves are set by projecting the expected premiums, claims, expenses, and reserves. The methodology is appropriate and consistent with industry norms. However, the combination of \$0 PDR and catastrophic claims in 2022 not sufficiently offset by the stop loss coverage in place led to unexpected losses. We recommend the Company to continue monitoring the emerging experience

Health New England, Inc.

in catastrophic claims and consider establishing a PDR or adjusting the attachment point for stop loss insurance in the future. Considering the volatility of claims and emerging risks for health systems and the information HNE had as of December 31, 2022, we consider this methodology appropriate with generally accepted industry standards.

SUBSEQUENT EVENTS

On February 15, 2024, Point32Health, the not-for-profit parent company of Harvard Pilgrim Health Care and Tufts Health Plan, announced it had signed a definitive agreement with Baystate Health to acquire Health New England, Inc. and its subsidiaries including HNE Insurance Company, Inc. Under the terms of the proposed transaction Point32Health shall become the sole corporate member of Health New England, Inc. The agreement is pending regulatory review and approval as of the date of this report of examination.

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.

Kenneth R. Plumb

Kenneth R. Plumb, CFE

Supervising Examiner

Examiner-In-Charge

Commonwealth of Massachusetts

Division of Insurance