

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Statutory Examination of

Health New England, Inc.

Springfield, Massachusetts

As of December 31, 2009

NAIC COMPANY CODE: 95673

EMPLOYERS ID NUMBER: 04-2864973

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
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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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

May 4, 2011

The Honorable Joseph Torti, III, Chairman
Financial Condition (E) Committee, NAIC
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

The Honorable Milton L. ...
Secretary, Northeastern Zone, NAIC
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Maine Bureau of Insurance
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The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs and Business
Regulation
Division of Insurance
1000 Washington Street, Suite 810
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Honorable Superintendents and Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G,
Section 10, an examination has been made of the financial condition and affairs of

HEALTH NEW ENGLAND, INC.

at its Home Office located at:

One Monarch Place, Springfield, MA 01144

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Health New England, Inc. hereinafter referred to as "the Company," "the Corporation," or "HNE," was last examined as of December 31, 2005 for the period January 1, 2003 thereto. The current examination covers the intervening period from January 1, 2006 through December 31, 2009, including any material transactions and events occurring subsequent to the examination date and noted during the course of the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance (the "Division") in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2010 Edition of the *NAIC Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General Laws. Representatives from the professional services firm of KPMG LLP ("KPMG") were engaged by the Division to assist in the examination by performing certain agreed-upon 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 these procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and actuarial pricing models and premium deficiency reserves as of December 31, 2009. KPMG's Information Technology Advisory Services ("ITAS") personnel were engaged to perform examination procedures pertaining to the examination of the IT system as outlined in the *NAIC Financial Condition Examiners' Handbook*.

The principal focus of the examination was 2009 activity however transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The risk focused approach 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement Instructions and Massachusetts regulations.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, provider contracts, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the examination team placed reliance on certain workpapers provided by the Company's independent auditor, Ernst & Young LLP ("E&Y"). Wherever possible and wherever deemed appropriate and effective, E&Y's independent

work product was used to define, support, document and expedite the overall examination process.

COMPANY HISTORY

HNE is a for-profit Health Maintenance Organization ("HMO") domiciled in Massachusetts. HNE was incorporated as a Massachusetts corporation on May 17, 1985. The Company was licensed as an HMO by the Massachusetts Commissioner of Insurance (the "Commissioner") on November 27, 1985 and commenced business on January 1, 1986. The Company was granted Federal Qualification as an HMO by the U.S. Department of Health and Human Services on June 1, 1987.

The Company was formed by capital contributions from three hospitals including Baystate Health, Inc. ("BH"), the parent corporation of Baystate Medical Center, and a group of BH-affiliated private care physicians. In March 1997, the company underwent a corporate reorganization, issuing approximately \$1.5 million in notes payable to former physicians and hospital shareholders; BH's ownership increased to an approximate 95% interest. In July 1998, the Company and Harvard Pilgrim Health Care, Inc. ("HPHC") executed a stock purchase agreement, whereby the Company issued additional common stock in exchange for HPHC's business in Western Massachusetts. BH subsequently entered into an agreement with HPHC, whereby HPHC purchased a portion of BH's interest in HNE.

HPHC entered receivership in January 2000 and the Commissioner assumed direct supervision and control of HPHC's assets and operations. In February 2000, BH submitted a proposal to purchase HPHC's ownership interest in HNE. BH completed this purchase in October 2000, gaining 95.8% of the Company's shares with affiliated physicians controlling the remaining 4.2%. The Company subsequently reached a settlement agreement with the physician and hospital shareholders in connection with notes issued to them in March 1997. The majority of those note holders have executed settlement of the notes under the terms of the agreement.

As of December 31, 2009, BH owned a 96.8% interest in the Company, with individual physicians controlling the remaining 3.2% interest.

CORPORATE RECORDS

In Accordance with the By-Laws and the Articles of Incorporation, the annual meeting of stockholders shall be held at a time and place to be decided by the Directors, provided however, that such meeting shall be held within six (6) months after the end of the fiscal year of the Corporation, as provided by law. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the Articles of Incorporation or by the By-Laws may be specified by the Board of Directors or the President/Chief Executive Officer.

The holders of more than fifty percent (50%) of the issued and outstanding capital stock entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by statute, the Articles of Organization or the By-Laws.

Articles of Incorporation and By-Laws

Review of the Articles of Incorporation and By-Laws indicated that the By-Laws were last amended effective February 17, 2005. This amendment reflects the transfer of the audit committee function to BH.

Board of Directors and Committee Minutes

The minutes of the Board and committee meetings for the period under examination were reviewed and activities of the committees were reported upon at various meetings of the Board.

MANAGEMENT, CONTROL AND CORPORATE GOVERNANCE

Board of Directors

The Company's By-Laws provide that the business and affairs of the Corporation shall be managed by a Board of Directors, who may exercise all the powers of the Corporation except as otherwise provided by law, the Articles of Organization or the By-Laws. The Board shall consist of up to sixteen (16) Directors, consisting of two (2) Directors serving ex officio and up to fourteen (14) Directors elected by the shareholders. The ex officio Directors shall be the Chief Executive Officer of BH and the President/Chief Executive Officer of the Company. The remaining Directors shall consist of not less than five (5) nor more than seven (7) Directors who are current employees of, or current or former trustees, Directors or committee members of BH or its affiliates, or subsidiaries (hereinafter the "BH Directors"). In addition, the Board shall consist of a number of Directors equal to the number of BH Directors who are participating physicians (hereinafter the "Physician Directors") and meet the alignment criteria periodically established by the stockholders. Each Director other than the ex officio Directors shall hold office until the next annual meeting of the stockholders or until his or her successor shall have been duly elected and qualified, unless he or she sooner dies, resigns, is removed, or becomes disqualified. There shall be no limit to the number of consecutive terms an individual may serve as a Director.

It is noted that based on the membership list of Directors as of the examination date, the Company is not in compliance with its By-Laws as they relate to the minimum number of BH Directors. Based on the information obtained from the Company, the Board is comprised of only four BH Directors and a minimum of five is required. The By-Laws also state that an equal number of Physician Directors be represented on the Board and as of the examination date, Physician Directors on the Board totaled five. See the Comments and Recommendations section at the conclusion of this report for additional details.

Directors elected and serving at December 31, 2009, with business affiliations and director classification, are as follows:

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<u>Director</u>	<u>Principal Occupation</u>	<u>Director Class</u>
Bruce Brown	Retired President Monarch Life Insurance Company	BH Director
Michael J. Daly	Retired Vice Chairman Baystate Health, Inc.	BH Director
John Egelhofer, M.D.	Private Practicing Physician Chestnut Medical Associates, Inc.	Physician Director
Benjamin Liptzin, M.D.	Chairman, Dept. of Psychiatry / BMERF Baystate Health System, Inc. Private Practicing Physician	Physician Director
Keith C. McLean- Shinaman	Treasurer and Senior Vice President, Finance Baystate Health, Inc.	BH Director
Richard Segool, M.D.	Pioneer Valley Pediatrics Private Practicing Pediatrician	Physician Director
Peter Straley	President and Chief Executive Officer Health New England, Inc.	Ex officio Director
Stephen Sweet, M.D.	President and Chief Executive Officer Baycare Health Partners Private Practicing Nephrologist	Physician Director
Mark R. Tolosky	President and Chief Executive Officer Baystate Health, Inc.	Ex officio Director
David W. Townsend	President Woodstock Mills, Inc.	BH Director
Steve Wenner, M.D.	New England Orthopedic Surgeons Private Practicing Orthopedic Surgeon	Physician Director

Committees of the Board

Subject to any relevant provision of the Articles of Organization or the By-Laws, the Board shall appoint an Executive Committee and/or other appropriate committees and may delegate to each committee some or all of its powers to the extent permitted by law. Except as the Board or the By-Laws may otherwise determine, any such committee may make rules for the conduct of its business. The Board shall have the power at any time to fill vacancies in any such committee, to change its membership or to discharge the committee. No action taken by any committee, other than the Executive Committee, shall be final unless the action is ratified by the Board or the Executive Committee; the action is reported at a meeting of the Board or Executive Committee and no objection is raised by any Director present; or a majority of the members of the Committee in attendance and voting on the action are BH Directors.

In addition to the Executive Committee, the standing committees of the Board as of the examination date include a Finance, Compensation, and Nominating committees. The Board may at its discretion, also elect advisory or administrative committees that include non-members of the Board. Also noted, BH's Audit and Compliance Committee now has full audit oversight duties and responsibilities for HNE.

Executive Committee

The Executive Committee shall consist of the Chairman of the Board plus equal numbers of BH Directors and Physician Directors. The President/Chief Executive Officer shall also serve, *ex officio*, as a non-voting member of the Executive Committee. A quorum for the Executive Committee shall consist of a majority of its members, except that during such time that BH and its subsidiaries collectively hold no less than fifty percent (50%) of the issued and outstanding capital stock entitled to vote, a quorum must include at least one BH Director, and if the opportunity to participate in the meeting through a conference call is unavailable, a quorum must include at least one Physician Director. Unless otherwise specified by law, the Articles of Organization or the By-Laws, the act of the majority of the Executive Committee members present at a meeting at which a quorum is present shall be the act of the Executive Committee.

The following were members of the Executive Committee as of December 31, 2009:

Mark R. Tolosky, Chair
Peter F. Straley, *Ex Officio*
Keith C. McLean-Shinaman
Richard Segool, MD
Stephen Sweet, MD

Finance Committee

The following were members of the Finance Committee as of December 31, 2009:

Keith C. McLean-Shinaman, Chair
Peter F. Straley
Stephen Sweet, MD
Mark R. Tolosky
Steven Wenner, MD

Compensation Committee

The following were members of the Compensation Committee as of December 31, 2009:

Mark R. Tolosky, Chair
Michael J. Daly
Richard Segool, MD
David Townsend

Bruce Brown

Nominating Committee

The following were members of the Nominating Committee as of December 31, 2009:

Mark R. Tolosky
Richard Segool, MD
Stephen Sweet, MD

Officers

The Company's officers shall consist of a Chairman of the Board, President/Chief Executive Officer, a Treasurer, a Clerk, and such other officers with such other titles as the Board may determine from time to time, including but not limited to a Vice Chairman of the Board, one or more Vice Presidents, Assistant Treasurers and Assistant Clerks. With the exception of the Chairman of the Board and the President/Chief Executive Officer, who shall serve as members of the Board ex officio, no officer need be a director or stockholder. Any two or more offices may be held by the same person. The Clerk shall be a resident of the Commonwealth of Massachusetts unless the Corporation has a resident agent appointed for the purpose of service of process.

The Chairman of the Board shall be the Chief Executive Officer of BH. The President/Chief Executive Officer, Treasurer and Clerk shall be elected annually by the Board at its first meeting following the annual meeting of the stockholders.

The Company's senior officers and their respective titles at December 31, 2009 were as follows:

<u>Officer</u>	<u>Title</u>
Mark R. Tolosky	Chairman
Richard Segool, M.D.	Vice Chairman
Philip H. Straley	President and Chief Executive Officer
Robert A. Kosior	Vice President, Finance
Judith Danek	Secretary and Clerk
Thomas Ebert, M.D.	Vice President and Medical Director
James E. Kessler, Esq.	Vice President, General Counsel and Compliance
Philip LaCombe	Vice President, Information Technology
Amy Trombley	Vice President, Human Resources
Keith McLean- Shinaman	Treasurer
Maura McCaffrey	Vice President, Marketing and Business Development
Juan Campbell	Vice President, Sales
Donna O'Shea, M.D.	Medical Director
Noel Blagg, M.D.	Associate Medical Director
David Methe	Security Officer

Conflict of Interest Procedures

The Company has adopted a conflict of interest policy statement and has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer, Director, or "Covered Person" which is in conflict, or is likely to conflict with his/her official duties. "Covered Persons" are defined as members of the Board of Directors, officers and any employees designated by the Board or the President/Chief Executive Officer.

A Covered Person must disclose the existence of any potential conflict of interest (e.g., a financial or competitive interest or other obligation to another entity) and all material facts to the Company's Board of Directors, or to any committee or individual designated by the Board to receive such disclosures. Each Covered Person shall annually receive a copy of the Company's conflict of interest policy, and shall be asked to report any potential conflicts to the Board or its designee at least annually on a form prescribed by the Board. Each Covered Person shall be required to report any material changes to the information in the report to the Board or its designee as soon as such changes occur.

The completed conflict of interest statements were reviewed, and no discrepancies were noted in the response to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2009 Annual Statement.

Management Continuity and National Emergency

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws, Chapter 175 §§ 180M-180Q.

AFFILIATED COMPANIES

As noted previously, approximately 90.8% of all outstanding shares of the Company are owned by BH. BH is also owner of Baystate Medical Center, Inc., Franklin Medical Center, Mary Lane Hospital Corporation, Visiting Nurse Association and Hospice of Western New England, Inc., Baystate Administrative Services, Inc., Ingraham Corporation, Baystate Health Systems Ambulance, Inc., Baystate Medical Education and Research Foundation, Inc., Baystate Affiliates Practice Organization, Inc., BHS Insurance Company, Ltd., and Baystate Health Foundation, Inc.

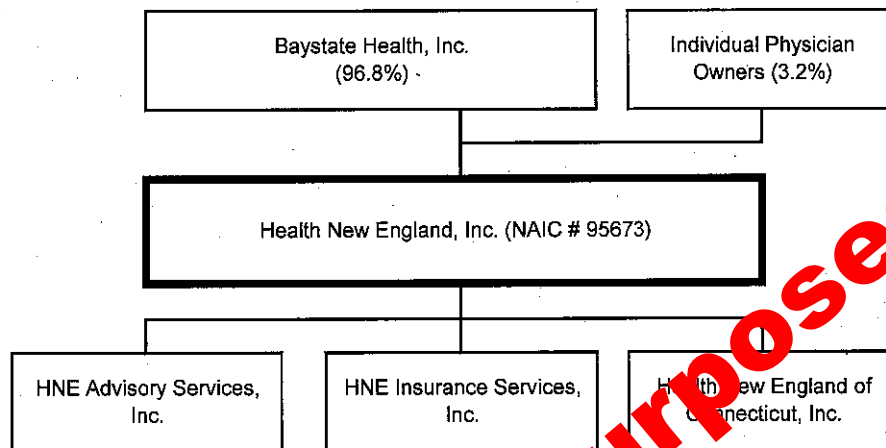
During 1989, the Company established a wholly-owned subsidiary, HNE Advisory Services, Inc., ("HAS") through which self-funded managed health care products are offered. The Company acts as a third party administrator of managed care programs for the subsidiary. Under a Management Services Agreement, the Company also provides other management services to HAS. HAS provides administration and claims processing services on behalf of self-insured employer sponsored health care benefit plans. Each month HNE bills HAS for administrative duties that it performed on behalf of HAS.

During 1992, the Company established Health New England Insurance Services, Inc. ("HIS"). HIS is an insurance agency through which the company's sales executives broker ancillary insurance lines to employer accounts.

Health New England of Connecticut, Inc. ("HNECT") is an unlicensed HMO domiciled in Connecticut that has remained inactive since its incorporation.

The value of HNE's non-insurance subsidiaries (HIS and HNECT) are non-admitted in accordance with statutory accounting practices as HNE does not perform separate audits of these entities.

ORGANIZATIONAL CHART



Surplus Notes

On April 9, 1999, HNE issued surplus notes totaling \$4,000,000 to meet HNE's working capital needs and statutory net worth requirements as determined by the Division. BH is the holder of the notes which are uncollateralized and subordinate to all present and future indebtedness of HNE, policy claims and prior claims against HNE. Interest on the notes accrues monthly and is adjusted based on the prevailing prime rate each January and July. The notes mature on April 9, 2014. All payments of interest and principal are subject to the prior approval of the Commissioner. In December 2009 and 2008, the Company made an interest payment to BH in the amount of \$130,000 and \$245,000, respectively, for interest accrued from January through December each year. Both payments were approved by the Commissioner. In December 2010, subsequent to the period covered by this exam, the Commissioner approved payment of \$130,000 of accrued interest, and a \$2,000,000 payment of principal on the note, reducing the outstanding principal to \$2,000,000.

FIDELITY BOND AND OTHER INSURANCE

The Corporation maintains fidelity bond coverage with an authorized Massachusetts insurer. The aggregate limit of liability is within the NAIC suggested minimum.

In addition to the fidelity bond insurance, the Corporation has other insurance purchased from authorized insurers in the form of professional liability and excess professional liability coverage.

PENSION AND INSURANCE PLANS

HNE provides a 401 (k) Retirement Plan (the Plan) to its employees. Employees may contribute up to 75% of pre-tax annual compensation, as defined in the Plan document. In 2009 and 2008 HNE matched 100% of the first 6% of employee contributions to the Plan. An additional profit sharing contribution may be made by HNE at its discretion. Contributions and compensation levels are subject to certain limitations under the Internal Revenue Code. All administrative costs associated with the Plan are the responsibility of HNE.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2009 were as follows:

<u>Description of Deposits</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Bonds Held as Restricted Cash	Massachusetts – Protection for All Policyholders	\$1,607,665	\$1,607,665
		\$1,607,665	\$1,607,665

TERRITORY AND PLAN OPERATION

The Company is headquartered in Springfield, MA, and is licensed to transact business solely in the Commonwealth of Massachusetts. As of December 31, 2009 HNE's service area in Massachusetts included Franklin, Berkshire, Hampden and Hampshire counties and part of Worcester County. Due to its proximity to the Connecticut border, it also serves Hartford, Litchfield and Tolland Counties in Connecticut.

HNE offers a variety of plan choices, including health maintenance organization (HMO), point-of-service (POS) and preferred provider organization (PPO) plans. The Company also offers a direct Medicare Supplement insurance product.

Growth of Company

The total admitted assets, total liabilities and capital and surplus of the Company for the years ended 2006 through 2009 are shown in the following schedule:

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2009	\$82,417,457	\$40,757,572	\$41,659,885
2008	\$86,164,730	\$47,790,776	\$38,373,954
2007	\$85,279,134	\$49,309,761	\$35,969,373
2006	\$70,822,382	\$40,130,129	\$30,752,253

PROVIDER CONTRACTS

The Company has entered into contractual agreements with various health care providers to provide health care services to its health plan members. These "provider contracts" spell out the terms, conditions, and criteria, which must be met in order for the contract to remain in effect. Payments for services provided to plan members are determined on a contracted-rate or capitated basis.

The agreements are in compliance with 211 CMR 52.00.

REINSURANCE

HNE has reinsured its liability for certain catastrophic medical services. The reinsurance contract provides for coverage of any HMO member's cumulative inpatient and outpatient hospital facility claims in excess of \$300,000 for 2009, subject to certain limitations as defined in the contract.

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting firm of Ernst & Young LLP in accordance with 211 CMR 23.00. E&Y issued an unqualified opinion on the audited financial statements for each period covered by this examination. The Company is also subject to review by the internal audit department of BH.

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the E&Y. No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA firm's filings with the Division.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology (IT) environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Technology Advisory Services (ITAS) team, which evaluated the adequacy of the IT controls. Although no material deficiencies were noted, several weaknesses in the IT environment were noted. See IT Review section later in this report.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2009 Annual Statement. No material exceptions were noted.

UNPAID CLAIMS

The liability for medical claims payable is based upon HNE's estimate of the total reported and underreported claims attributed to services rendered in the current period. Such estimates are based upon a comprehensive accounting of all reported claims as well as an actuarially determined liability, based on past experience, for claims incurred but not reported. The estimate of the claims payable and claim adjustment liability as of year-end has been reviewed by HNE's independent actuary and management believes that the liability for medical claims payable and unpaid claim adjustment expenses are adequate to cover the ultimate cost of claims outstanding and related claim adjustment. However,

final claim payments may differ from the liability established. Any resulting adjustments will be reflected in the results for the year during which the adjustments become known.

Capitation for primary care services, the cost and claim settlement expense related to prescription drugs and medical expenses for hospital inpatient services and outpatient specialty care services are recorded in the period in which they are incurred.

Based on an analysis using claim data through March 2010, it appears as though the unpaid claim liability as of December 2009 is sufficient to cover the expected claim liability. The liability is redundant by approximately \$0.6 million when compared to the high end KPMG's range of reserve estimates.

Rate Adequacy

The Company does not appear to have any rate adequacy issues as of December 31, 2009, and the Company concluded that no premium deficiency reserves were required as of December 31, 2009. Overall 2010 results through September are favorable to plan. Additionally, based on the rate increase settlement that was implemented in July 2010, the Company has determined that premiums are sufficient for 2010. The Company's premium deficiency reserve analysis results appear to be reasonable.

IT REVIEW

As noted, KPMG's Information Technology and Advisory Services unit was engaged by the Division to evaluate the IT environment of the Company based on guidance provided by the *NAIC Financial Condition Examiners' Handbook*. Based on this review we have noted that HNE has weaknesses in IT governance and strategy, logical security, and segregation of duties related to systems changes. As several of the same findings have been noted for two consecutive review periods, HNE should consider establishing an actionable risk management plan, inclusive of timelines, assignment of roles and responsibilities, and budget to address these observations.

The review team noted that each of the areas of risk identified above is not significant or material when analyzed individually. However, the pervasive nature and relatively high number of findings, some of which were noted and not resolved in the previous review, suggests that the design of HNE's information technology general controls environment overall should be strengthened to remediate the noted weaknesses.

SUBSEQUENT EVENTS

The Exam team performed a full scope statutory examination of Health New England, Inc. for the period from January 1, 2006 to December 31, 2009. During the second quarter of 2010 the Company recorded a premium deficiency reserve. The reserve was the result of the Commissioner's rejection of proposed small business and merged market group rate increases for an April 1, 2010 effective date. In August 2010, agreement was reached between the Division and HNE to limit premium rate increases to between 8.3% and 14.7%. After settlement was reached with the Division regarding rate increases,

HNE amended and refiled its 2Q NAIC quarterly statement, the amendment included reversal of the entire premium deficiency reserve booked during the quarter.

Additionally, during the third quarter 2010 the Company had requested to repay the entire outstanding \$4 million surplus note owed to their parent company, BH. On December 28, 2010, the Division granted the Company permission to pay current interest due, and \$2 million of the outstanding principal as of this time.

FINANCIAL STATEMENTS

The financial section includes the following:

Statement of Assets, Liabilities, Capital & Surplus as of December 31, 2009

Statement of Revenue and Expenses for the Year Ended December 31, 2009

Capital & Surplus for the Year Ended December 31, 2009

Reconciliation of Capital & Surplus for the Four-Year Period Ended December 31, 2009

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2009.

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
Health New England, Inc.

Health New England, Inc.
Statutory Statement of Assets, Liabilities, Capital & Surplus
As of December 31, 2009

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
<u>ASSETS</u>			
Bonds	\$ 58,245,864	\$ -	\$ 58,245,864
Stocks:			
Preferred stocks	43,400	-	43,400
Common Stocks	2,853,542	-	2,853,542
Cash, cash equivalents and short-term investments	14,060,082	-	14,060,082
Subtotals, cash and invested assets	75,202,888	-	75,202,888
Investment income due and accrued	470,671	-	470,671
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,141,520	-	1,141,520
Current federal and foreign income tax recoverable and interest thereon	308,532	-	308,532
Net deferred tax asset	2,535,281	-	2,535,281
Electronic data processing equipment and software	685,044	-	685,044
Receivables from parent, subsidiaries and affiliates	672,686	-	672,686
Health care and other amounts receivable	1,400,835	-	1,400,835
Total Assets	\$ 82,417,457	\$ -	\$ 82,417,457
<u>LIABILITIES</u>			
Claims unpaid	\$ 24,597,092	\$ -	\$ 24,597,092
Accrued medical incentive pool and bonus amounts	2,018,390	-	2,018,390
Unpaid claims adjustment expenses	2,030,518	-	2,030,518
Premiums received in advance	5,282,488	-	5,282,488
General expenses due or accrued	6,734,144	-	6,734,144
Amounts due to parent, subsidiaries and affiliates	94,940	-	94,940
Total Liabilities	\$ 40,757,572	\$ -	\$ 40,757,572
<u>CAPITAL AND SURPLUS</u>			
Common capital stock	5,026,556	-	5,026,556
Preferred capital stock	1,073,490	-	1,073,490
Gross paid in and contributed surplus	4,000,000	-	4,000,000
Unassigned funds (surplus)	31,559,847	-	31,559,847
Total Capital and Surplus	\$ 41,659,893	\$ -	\$ 41,659,893
Total Liabilities, Capital and Surplus	\$ 82,417,465	\$ -	\$ 82,417,465

Health New England, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2009

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
Member months	\$ 859,033	\$ -	\$ 859,033
Net premium income	307,575,645	-	307,575,645
Total revenues	\$ 307,575,645	\$ -	\$ 307,575,645
Hospital and medical:			
Hospital / medical benefits	179,252,276	-	179,252,276
Other professional services	3,464,344	-	3,464,344
Outside referrals	23,336,896	-	23,336,896
Emergency room and out-of-area	10,597,581	-	10,597,581
Prescription drugs	44,678,862	-	44,678,862
Aggregate write-ins for other hospital and medical	6,946,524	-	6,946,524
Incentive pool, withhold adjustments and bonus amounts	2,569,061	-	2,569,061
Subtotal	270,845,544	-	270,845,544
Less:			
Net reinsurance recoveries	1,942,967	-	1,942,967
Total hospital and medical	268,902,577	-	268,902,577
Claims adjustment expenses	10,093,437	-	10,093,437
General administrative expenses	25,751,246	-	25,751,246
Total underwriting deductions	304,747,260	-	304,747,260
Net underwriting gain or (loss)	2,828,385	-	2,828,385
Net investment income earned	2,487,208	-	2,487,208
Net realized capital gains (losses)	(685,949)	-	(685,949)
Net investment gains (losses)	1,801,259	-	1,801,259
Net gain or (loss) from agents' or premium balances charged off	(136,737)	-	(136,737)
Aggregate write-ins for other income or expenses	2,903	-	2,903
Net income or (loss) after capital gains tax and before all other			
federal income taxes	4,495,810	-	4,495,810
Federal and foreign income taxes incurred	1,333,996	-	1,333,996
Net income	\$ 3,161,814	\$ -	\$ 3,161,814

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
Health New England, Inc.

Health New England, Inc.
Capital & Surplus
For the Year Ended December 31, 2009

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
Capital and Surplus, December 31, 2008	\$ 38,373,954	\$ -	\$ 38,373,954
Net income or (loss)	3,161,814	-	3,161,814
Change in net unrealized capital gains and losses (Less capital gains tax)	471,386	-	471,386
Change in net deferred income tax	(156,228)	-	(156,228)
Change in nonadmitted assets	(176,046)	-	(176,046)
Capital Changes:			
Paid in	(14,987)	-	(14,987)
Net change in capital and surplus	3,285,939	-	3,285,939
Capital and Surplus, December 31, 2009	\$ 41,659,893	-	\$ 41,659,893

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
Health New England, Inc.

Health New England, Inc.
Reconciliation of Capital & Surplus
For the Four Year Period Ended December 31, 2009

	2009	2008	2007	2006
Capital and Surplus, December 31, prior year	\$ 38,373,954	\$ 35,969,373	\$ 30,752,253	\$ 24,694,949
Net income or (loss)	3,161,814	3,436,303	4,077,211	5,196,811
Change in net unrealized capital gains and losses (Less capital gains tax)	471,386	(225,708)	33,739	158,144
Change in net deferred income tax	(156,228)	1,237,660	533,425	233,126
Change in nonadmitted assets	(176,046)	(1,094,331)	372,954	306,086
Capital Changes:				
Paid in	(14,987)	(69,943)	(34,511)	(4,995)
Aggregate write-ins for gains or (losses) in surplus	-	(879,400)	221,762	178,094
Net change in capital and surplus	3,285,939	2,404,581	5,217,120	6,057,304
Capital and Surplus, December 31, current year	\$ 41,659,893	\$ 38,373,954	\$ 35,969,373	\$ 30,752,253

COMMENTS AND RECOMMENDATIONS

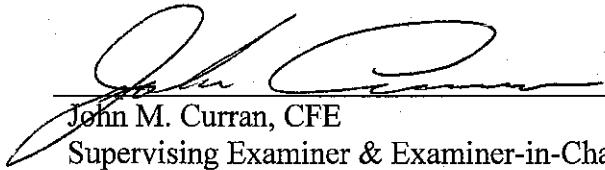
Compliance with Corporate By-Laws

As noted earlier in this report, the Exam Team has determined that the Company is not in compliance with guidelines promulgated in its By-Laws as they relate to the qualifications and composition of its Board of Directors. This issue has been brought to management's attention and management has asserted that at its next Board Meeting, scheduled for June 23, 2011, either an additional Director will be added to the Board, or the Board will vote to amend its By-Laws. It is recommended that the current Board and Shareholders take whatever steps are required to bring the membership of the Board into compliance with the By-Laws and the Articles of Organization. Section 3.4 of the By-Laws provides guidance with regard to "Vacancies".

It is also recommended that a comprehensive review of all actions taken by the Board be completed, and that all actions previously taken by the Board requiring a voted or approval of the Board be ratified by a full Board meeting the requirements of the By-Laws and Articles of Incorporation.

ACKNOWLEDGMENT

The cooperation and assistance of the officers and employees of Health New England, Inc. extended to all examiners during the course of the examination is hereby acknowledged.



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

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