



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

***REPORT OF EXAMINATION OF THE***  
**HPHC INSURANCE COMPANY, INC.**

**Canton, Massachusetts**

**As of December 31, 2020**

**NAIC GROUP CODE 0595**

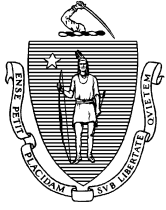
**NAIC COMPANY CODE 18975**

**EMPLOYERS ID NUMBER 04-3149694**

# HPHC INSURANCE COMPANY, 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 Minutes   | 3           |
| Article of Organization and Bylaws   | 4           |
| Board of Directors   | 4           |
| Officers   | 5           |
| Affiliated Companies   | 5           |
| Organization Chart   | 5           |
| Transactions and Agreements with Subsidiaries and Affiliates               | 6           |
| Territory and Plan of Operation  | 7           |
| Treatment of Policyholders – Market Conduct                                | 7           |
| Reinsurance  | 7           |
| Financial Statements   | 8           |
| Statement of Assets, Liabilities, Capital and Surplus                      | 9           |
| Statement of Income  | 10          |
| Reconciliation of Capital and Surplus                                      | 11          |
| Analysis of Changes in Financial Statements Resulting from the Examination | 12          |
| Comments of Financial Statement Items                                      | 12          |
| 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

**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 25, 2022

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 175, Section 4 and other applicable statutes, an examination has been made of the financial condition and affairs of

**HPHC INSURANCE COMPANY, INC.**

at its home office located at One Wellness Way, Canton, Massachusetts, 02021-1166. The examination was conducted remotely. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

HPHC Insurance Company, Inc. (“HPIC” or “Company”) was last examined as of December 31, 2016 by the Massachusetts Division of Insurance (“Division”). The current examination was also conducted by the Division and covers the four-year period from January 1, 2017 through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Harvard Pilgrim Group (“Group”) were also examined and separate Reports of Examination have been issued:

Harvard Pilgrim Health Care, Inc. (HPHC)  
Harvard Pilgrim Health Care of New England (HPHC-NE)

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 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 (“D&T”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for calendar years 2017 through 2020. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective.

The INS Companies (“INS”) was engaged 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. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates.

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

There were no significant findings identified during the examination nor during the prior examination as of December 31, 2016.

## **COMPANY HISTORY**

HPIC, a Massachusetts Corporation, is a wholly owned, for profit subsidiary of New HPHC Holding Corporation (“NEWCO”), a Delaware for-profit holding company, which is a wholly owned subsidiary of Harvard Pilgrim Health Care, Inc. (“HPHC, Inc.”) a Massachusetts not-for-profit health plan. The Company was incorporated on September 27, 1991, and commenced underwriting accident and health risks on January 1, 1992. The Company underwrites health benefit plans for groups and individuals in Massachusetts, New Hampshire, Connecticut and Maine for Preferred Provider Organizations (“PPO”) and Medicare products. The Company also administers comprehensive health benefit plans and underwrites excess risk coverage for certain self-insured employer groups. The Company also underwrites health risks related to out-of-network coverage for HPHC, Inc. members.

Effective January 1, 2017 NEWCO was formed. HPHC, Inc. is the sole corporate member of NEWCO. All of HPHC, Inc.’s for-profit entities were contributed to NEWCO and held by NEWCO. The for-profit subsidiaries under NEWCO include: HPHC Insurance Agency, HPHC Insurance Company, Inc., Health Plans, Inc. with its two-for-profit subsidiaries: Plan Marketing Insurance Agency, Inc. and Care Management Services, Inc.; in addition to, two other subsidiaries that are disregarded entities for tax purposes: TrestleTree LLC and MedWatch LLC, which are care management companies. NEWCO is the sole corporate member of the HPIC. HPIC, together with HPHC, Inc., HPHC-NE, NEWCO, Health Plan, Inc., Harvard Pilgrim Health Care Institute, and the HPHC Insurance Agency are collectively referred to herein as “Harvard Pilgrim.”

On August 14, 2019, Harvard Pilgrim and Health Plan Holdings, Inc. (“HPHI” formerly Tufts Health Plan, Inc.) announced their intent to combine their respective nonprofit organizations effective January 1, 2021. The Company recorded \$2.1 million in transaction costs related to the combination in 2020.

The Company has authorized 50,000 shares with \$50 par value of Common stock, and 21,340 shares are issued and outstanding. As of December 31, 2020, Common Stock was carried at \$1,067,000.

## **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

## HPHC Insurance Company, Inc.

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

A review of the articles of organization of the Company was completed. There were no changes to the articles of organization during the examination period. The bylaws were amended and restated on May 30, 2018 due to the restructuring of the insurance holding company.

### Board of Directors

The affairs of the Company shall be managed by the Directors who shall have and may exercise all the powers of the Company. At the annual meeting of stockholders, such stockholders as have the right to vote for the election of Directors, shall fix the number of Directors at not less than five, and shall elect the number of Directors so fixed.

At December 31, 2020, the Company's Board was comprised of five persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts.

The members of the Board at December 31, 2020, are as follows:

| <u>Director</u>     | <u>Title</u>   |
|---------------------|--|
| Charles R. Goheen   | Chief Financial Officer and Treasurer<br>Harvard Pilgrim Health Care, Inc. |
| Tisa K. Hughes      | Chief Legal Officer and Clerk<br>Harvard Pilgrim Health Care, Inc.         |
| Michael A. Carson   | President and Chief Executive Officer<br>Harvard Pilgrim Health Care, Inc. |
| Michelle J. Clayman | Assistant Treasurer<br>Harvard Pilgrim Health Care, Inc.                   |
| Beth A. Roberts     | SVP Enterprise Sales & Marketing<br>Harvard Pilgrim Health Care, Inc.      |

## HPHC Insurance Company, Inc.

### Officers

The Company's officers consist of a President, Treasurer, Clerk and such other officers, if any, as the Directors may determine. The Clerk shall be a resident of the Commonwealth of Massachusetts unless the Company has appointed a resident agent to receive service of process.

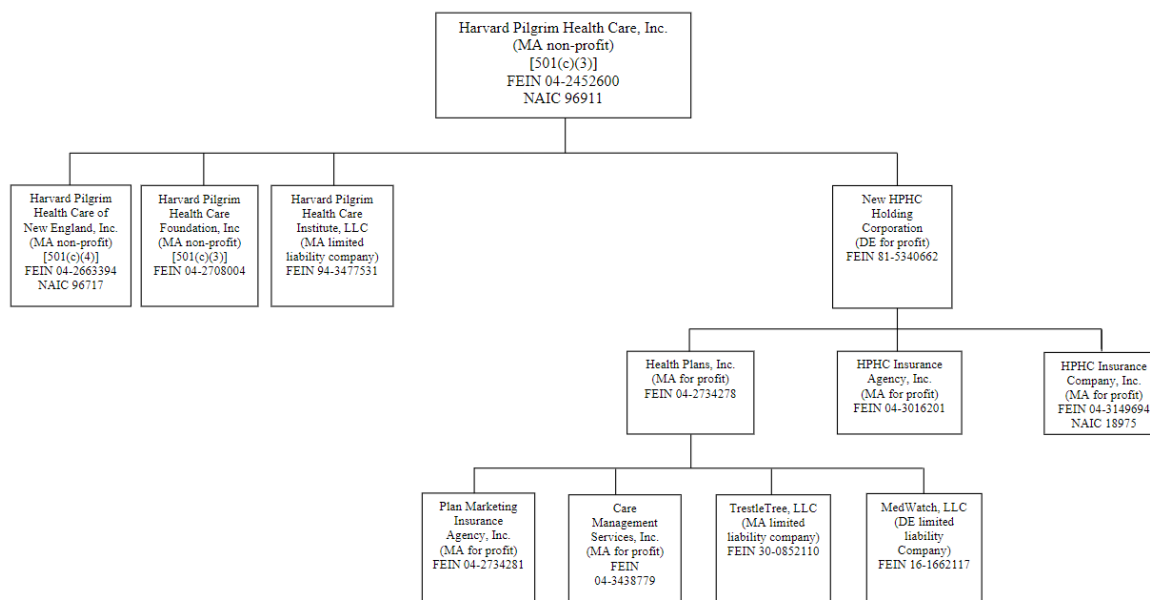
The officers of the Company at December 31, 2020, are as follows:

| <u>Officer</u>      | <u>Title</u>                               |
|---------------------|--|
| Michael A. Carson   | President & Chief Executive Officer        |
| Charles R. Goheen   | Chief Financial Officer and Treasurer      |
| Michelle J. Clayman | Senior VP of Finance & Assistant 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.

### Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

*Guaranty and Indemnity Agreement*

The Company, HPHC, Inc., and Harvard Pilgrim Health Care of New England, Inc. participate in a Guaranty and Indemnity agreement (“G&I Agreement”). Under the terms of the G&I Agreement, each entity guarantees the payment and performance of the other. In addition, each entity is jointly and severally liable for all obligations that may arise out of this G&I Agreement. The Company has no contingent liabilities related to the G&I Agreement as of December 31, 2020.

*Administrative Services Agreement*

The Company has no employees and, accordingly, HPHC, Inc. provides all administrative services to the Company, including premium collection, claims payments and operational management. Administrative expenses are allocated to the Company based on HPHC, Inc.’s departmental cost allocation methodology.

*Master Service Agreement*

Health Plans, Inc. (“HPI”), a wholly owned subsidiary of HPHC, Inc., administers a certain product on behalf of the Company. HPI performs administrative functions associated with the product including enrollment, premium billing, and claims adjudication. The Company pays a per-member per-month (“PMPM”) fee to HPI for the services performed.

*Reconciliation and Settlement Agreement*

Effective 2007 and amended and restated January 1, 2019, this agreement provides that financial transactions between companies are reconciled on a quarterly basis and if reconciliation requires a settlement payment, such payment will be made within 90 days of reconciliation.

*Tax Sharing Agreement*

The Company’s federal tax is consolidated with the NEWCO, and the subsidiaries of NEWCO. This agreement describes the preparation and filing of consolidated income tax returns for NEWCO and the other for-profit subsidiaries. Each subsidiary pays its proportionate share of costs for tax return preparation and its respective income tax liability.

*Capital Contributions*

On December 30, 2020, HPIC made an extraordinary distribution of \$30 million to HPHC, Inc., which was approved by the Massachusetts Division of Insurance.



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

The Company is licensed in four states; Connecticut, Maine, Massachusetts and New Hampshire. The Company reported \$357 million of 2020 direct premium written in Massachusetts.

#### **Treatment of Policyholders – Market Conduct**

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to members and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. 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 for certain hospital inpatient, outpatient and pharmacy claims in excess of the policy deductible. The Company is reimbursed 90% for large group, fully insured commercial and Medicare members and 40% for small group and individuals fully insured commercial members. The policy deductibles are \$1,100,000 for Maine, Connecticut, and New Hampshire fully insured, large and small group, commercial members and \$1,750,000 for Massachusetts, large and small group, fully insured commercial members. The policy deductible is \$1.0 million for Medicare members. There is no limit to the amount recoverable in excess of the Specific Deductible and Reimbursement Percentage.

**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, 2020. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2020

Statement of Income for the Year Ended December 31, 2020

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2020

HPHC Insurance Company, Inc.

**Statement of Assets, Liabilities, Capital and Surplus**  
**As of December 31, 2020**

|   | Per<br>Annual<br>Statement |
|---|----------------------------|
| <b>Assets</b>   |                            |
| Bonds   | \$212,489,996              |
| Cash, cash equivalents and short-term investments                       | 3,605,553                  |
| Aggregate write-ins for invested assets                                 | 2,647,408                  |
| Subtotals, cash and invested assets                                     | 218,742,957                |
| Investment income due and accrued                                       | 1,064,200                  |
| Premiums and considerations:  |                            |
| Uncollected premiums and agents' balances                               | 30,617,713                 |
| Accrued retrospective premium and contracts subject to redetermination  | 8,653,611                  |
| Reinsurance:  |                            |
| Amounts recoverable from reinsurers                                     | 10,644,536                 |
| Amounts receivable relating to uninsured plans                          | 3,002,738                  |
| Current federal and foreign income tax recoverable and interest thereon | 6,723,484                  |
| Net deferred tax asset  | 2,257,454                  |
| Guaranty funds receivable or on deposit                                 | 154,854                    |
| Health care and other amounts receivable                                | 5,823,866                  |
| Total assets  | \$287,685,413              |
| <b>Liabilities</b>  |                            |
| Claims unpaid   | \$77,887,615               |
| Accrued medical incentive pool and bonus amounts                        | 1,957,000                  |
| Unpaid claims adjustment expenses                                       | 827,930                    |
| Aggregate health policy reserves  | 25,965,410                 |
| Premiums received in advance  | 15,424,423                 |
| General expenses due or accrued   | 11,088,309                 |
| Ceded reinsurance premiums payable                                      | 12,172,441                 |
| Amounts due to parent, subsidiaries and affiliates                      | 2,115,037                  |
| Liability for amounts held under uninsured plans                        | 3,990,246                  |
| Total liabilities   | 151,428,411                |
| Common capital stock  | 1,067,000                  |
| Gross paid in and contributed surplus                                   | 162,334,000                |
| Unassigned funds (surplus)  | (27,143,998)               |
| Total capital and surplus   | 136,257,002                |
| Total liabilities capital, and surplus                                  | \$287,685,413              |

HPHC Insurance Company, Inc.

**Statement of Income**  
**For the Year Ended December 31, 2020**

|   | Per<br>Annual<br>Statement |
|---|----------------------------|
| <b>Member Months</b>  | <u>1,743,585</u>           |
| Net premium income  | \$687,041,415              |
| Change in unearned premium reserves and reserve for rate credits              | <u>(1,215,514)</u>         |
| Total revenues  | <u>685,825,901</u>         |
| <b>Deductions:</b>  |                            |
| Hospital/medical benefits   | 404,272,270                |
| Other professional services   | 19,655,284                 |
| Outside referrals   | 7,888,085                  |
| Emergency room and out-of-area  | 6,331,644                  |
| Prescription drugs  | 68,423,922                 |
| Incentive pool, withhold adjustment and bonus amounts                         | <u>2,468,906</u>           |
| Subtotal  | <u>509,040,111</u>         |
| Net reinsurance recoveries  | <u>(8,540,555)</u>         |
| Total hospital and medical  | <u>517,850,666</u>         |
| Claims adjustment expenses  | 26,150,245                 |
| General administrative expenses   | 82,617,078                 |
| Increase in reserves for life and accident and health contracts               | <u>(856,170)</u>           |
| Total underwriting deductions   | <u>625,491,819</u>         |
| Net underwriting gain or loss   | 60,334,082                 |
| Net investment income earned  | 4,517,608                  |
| Net realized capital gains less capital gains tax                             | <u>17,014</u>              |
| Net investment gain   | 4,534,622                  |
| Aggregate write-ins for other income or expenses                              | <u>(1,488,838)</u>         |
| Net income, after capital gains tax and before all other federal income taxes | 63,379,866                 |
| Federal and foreign income taxes incurred                                     | <u>12,276,517</u>          |
| Net income  | <u>\$51,103,349</u>        |

HPHC Insurance Company, Inc.

**Reconciliation of Capital and Surplus**

**For Each Year in the Four-Year Period Ended December 31, 2020**

|  | <u><b>2020</b></u>          | <u><b>2019</b></u>           | <u><b>2018</b></u>          | <u><b>2017</b></u>         |
|--|-----------------------------|------------------------------|-----------------------------|----------------------------|
| Capital and surplus, December 31 prior year    | \$118,517,904               | \$100,776,991                | \$70,417,485                | \$70,610,182               |
| Net income (loss)                              | 51,103,349                  | 13,311,200                   | 29,531,253                  | (80,051)                   |
| Change in net unrealized capital gains(losses) | 4,946                       | 44,632                       | (49,578)                    | -                          |
| Change in net deferred income tax              | (3,479,600)                 | 7,508,291                    | -                           | -                          |
| Change in nonadmitted assets                   | 110,403                     | (3,123,210)                  | 877,832                     | (112,646)                  |
| Dividends to Stockholders                      | (30,000,000)                | -                            | -                           | -                          |
| Net change in capital and surplus for the year | <u>17,739,098</u>           | <u>17,740,913</u>            | <u>30,359,507</u>           | <u>(192,697)</u>           |
| Capital and surplus, December 31 current year  | <u><u>\$136,257,002</u></u> | <u><u>\$ 118,517,904</u></u> | <u><u>\$100,776,991</u></u> | <u><u>\$70,417,485</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 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.

INS Health Actuaries prepared independent estimates of the unpaid claim liabilities (“UCL”) as of December 31, 2020. For December 31, 2020, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. Estimates were developed by subtracting the claims paid-to-date from the actuarial incurred estimates. The actuarial estimates, as determined by INS, indicate that HPIC's UCL is reasonable as of December 31, 2020. The Company's premium deficiency reserve calculation was also reviewed and found to be reasonable as of December 31, 2020.

### **SUBSEQUENT EVENTS**

On January 1, 2021, HPHI (formerly Tufts Health Plan, Inc.), entered into an agreement with Harvard Pilgrim Health Care, Inc. (“HPHC, Inc.”) to combine the two insurance holding company organizations under one parent company, HPHI. HPHI became the ultimate controlling person in the insurance holding company system. HPHI remained the sole corporate parent of Tufts Associated Health Maintenance Organization, Inc. (“TAHMO”). On July 1, 2021, HPHI changed its name to Point32Health, Inc.

Tufts Associated Health Plans, Inc. (“TAHP”), an affiliate, entered into a stock purchase agreement with United Healthcare Service, Inc. (“UHC”) in which UHC purchased 100% of TAHP's ownership interest in Tufts Freedom Health Plans, Inc. (“THFP”). The sale was effective as of January 1, 2021. As a result, effective January 1, 2021, TAHP has no ownership interest in THFP. This agreement had no impact on the Company's operations in 2020 or 2019.

### **SUMMARY OF RECOMMENDATIONS**

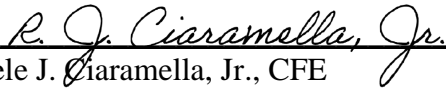
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

**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 INS and the following Division examiners who participated in this examination hereby is acknowledged:

Carla Mallqui, CFE, Insurance Examiner II

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