

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

REPORT OF EXAMINATION OF

HPHC Insurance Company, Inc.

Wellesley, Massachusetts

As of December 31, 2010

NAIC COMPANY CODE 18975

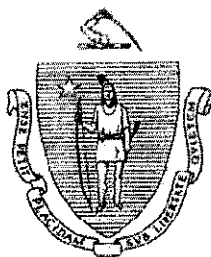
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EMPLOYER'S ID NO. 04-3149694

HPHC Insurance Company, Inc.

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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April 27, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner Murphy:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

HPHC Insurance Company, Inc.

at its home office located at 93 Worcester Street, Wellesley, MA 02481-9181. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This statutory examination of HPHC Insurance Company, Inc., hereinafter referred to as "Company", "Corporation", "Harvard Pilgrim Health Care Insurance Co.", "Insurance Company" or "Plan", is as of December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory 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 ("Division") in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the NAIC Financial Condition Examiners' Handbook, the examination standards of the Division and with Massachusetts General Laws. Representatives from the firm of KPMG LLP ("KPMG") were 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. This assistance included a review of accounting records, information systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves.

The principal focus of the examination was 2010 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model.

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, Deloitte & Touche LLP ("Deloitte"). Wherever possible and wherever deemed appropriate and effective, D&T's independent work product was used to define, support, document and expedite the overall examination process.

Status of Prior Examination Findings

The prior report of examination did not have any findings.

HISTORY

General

HPHC Insurance Company, Inc. is a wholly owned, for-profit subsidiary of Harvard Pilgrim Health Care, Inc. ("HPHC, Inc."), a not-for-profit health plan. The Insurance Company was incorporated on September 27, 1991, and commenced underwriting accident and health risks on January 1, 1992. The Insurance Company underwrites health benefit plans in Massachusetts, New Hampshire, and Maine for PPO, Medicare Indemnity, State Children's Health Insurance Program group and individual products. The Insurance Company also underwrites health risks related to out-of-network coverage for HPHC, Inc. members.

Other affiliates of HPHC, Inc. include Harvard Pilgrim Health Care of New England, Inc. ("New England"), a Massachusetts not-for-profit corporation, the Harvard Pilgrim Health Care Foundation, Inc., a Massachusetts not-for-profit corporation, Harvard Pilgrim Health Care Institute, LLC ("Institute"), a Massachusetts limited liability corporation and Health Plans, Inc. (HPI), a Massachusetts for-profit corporation. The Insurance Company, together with HPHC, Inc., New England, and HPI are collectively referred to herein as "Harvard Pilgrim."

The 2010 healthcare reforms contemplated in the Patient Protection and Affordability Act did not have a material impact on the financial statements of the Company. The Insurance Company is continuing to assess the potential impact of reforms contemplated for 2014.

Growth of the Company

Capital and Surplus consists of capital contributed to the Company and the excess of revenues over expenses since inception. The total admitted assets, total liabilities and capital and surplus of the Company for the years ended 2008 through 2010 are shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2008	\$60,075,810	\$39,234,866	\$20,840,944
2009	81,799,303	52,845,651	28,953,652
2010	113,378,096	76,655,434	36,722,662

PROVIDER CONTRACTS

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with physician providers and other health care providers. Physician providers and such other organizations or individuals are and shall be deemed to be, for all purposes, independent contractors with the Company, and shall not be characterized as officers, employees or agents of the Company.

HPHC Insurance Company, Inc.

The Company enters into contractual agreements with various health care providers to provide certain medical services to its members. Compensation arrangements vary by provider. Certain providers have entered into risk-sharing arrangements with the Company, whereby a settlement is calculated by comparing actual medical claims experience to a pre-approved and predetermined budgeted amount. These settlements are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. The agreements are in compliance with Massachusetts statutes and regulation 211 CMR § 52.

RESERVES

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 vary from previously estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities ("UCL") as of December 31, 2010 and prior periods. For December 31, 2010, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. The actuarial estimates, as determined by the KPMG Health actuaries, indicate that the Insurance Company's UCL are reasonable as of December 31, 2010.

The Company's premium deficiency reserve calculation was reviewed and found to be reasonable. The calculation indicated that no premium deficiency reserves were required as of December 31, 2010. Based on KPMG's review, the UCL as of December 31, 2010 appears to be fairly stated.

REINSURANCE

The Insurance Company carries reinsurance against excessive utilization on a per-member basis. Under a reinsurance agreement that is currently in place, the Insurance Company is reimbursed 80% of certain hospital inpatient, outpatient, and pharmacy claims over the policy deductibles, which range from \$50,000 to \$1,000,000. Inpatient hospital, outpatient hospital, and pharmacy claims are subject to additional policy sublimits. The maximum recoverable under the reinsurance agreement is \$2,000,000 per member, per lifetime. The impact of reinsurance recoveries on the statutory financial statements was immaterial for 2010, 2009 and 2008.

HPHC Insurance Company, Inc.

The Insurance Company has entered into various quota share reinsurance agreements with an authorized reinsurer. A summary of premium and medical costs ceded and assumed as of December 31, 2010 and 2009, is as follows (amounts in thousands):

	2010	2009
Premiums assumed	\$ 68,171	\$ 60,183
Premium income ceded	<u>61,843</u>	<u>52,225</u>
Net assumed premium	<u>\$ 6,328</u>	<u>\$ 7,958</u>
Medical and hospital expense assumed	\$ 55,077	\$ 48,841
Medical and hospital expense ceded	<u>50,480</u>	<u>45,221</u>
Net assumed medical and hospital expense	<u>\$ 4,597</u>	<u>\$ 5,620</u>

As of December 31, 2010 and 2009, the Insurance Company has a net receivable related to one of the reinsurance agreements of \$1.7 million and \$1.1 million, respectively, which represents the net amount of premiums due from the reinsurer offset by the amount of paid claims that the Insurance Company owes to the reinsurer for the quota share business. As of December 31, 2010 and 2009, the Insurance Company had a payable of \$2.1 million and \$1.6 million, respectively, from the reinsurance agreements, which represents net premium owed to the reinsurer for ceded business. The claims unpaid and accrued medical incentive pool liability includes assumed losses of \$15 million and \$14.3 million and have been reduced for ceded losses of \$12.5 million and \$11.5 million as of December 31, 2010 and 2009, respectively.

INCOME TAXES

HPHC Insurance Company is a taxable entity, and as such, files a separate federal income tax return. HPHC Insurance Company is not subject to state income taxes, but does pay taxes based on a percentage of premiums written and on gross investment income.

As part of KPMG's examination of the statutory financial statements of the Company, KPMG recalculated the Company's December 31, 2010 balance and rollforward for federal income tax recoverable and deferred taxes. KPMG also reviewed the Company's evaluation of the need for a valuation allowance and agreed with the Company's position that no valuation allowance was necessary at December 31, 2010. KPMG reviewed the Company's admitted deferred tax asset and determined that this was correctly calculated pursuant to Statement of Statutory Accounting Principles No. 10R, *Income Taxes*.

MANAGEMENT AND CONTROL

Articles of Organization and By-Laws

The Company's by-laws may be altered, amended or repealed at any annual or special meeting of the stockholders called for the purpose, of which the notice shall specify the subject matter of the proposed alteration, amendment or repeal or the sections to be affected, by vote of the stockholders. The by-laws may also be altered, amended or repealed by vote of a majority of the directors then in office. Our review of the by-laws indicated there were no changes since the prior examination.

Board of Directors

The Company's by-laws indicate the following regarding its board of directors ("Board"):

- Number: 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 (5) and shall elect the number of directors so fixed. The number of directors may be increased at any time either by the stockholders or by the directors by vote of a majority of the directors then in office. The number of directors may be decreased to any number permitted by law at any time either by the stockholders or by the directors by a vote of a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or disqualification of one or more directors. No director need be a stockholder.
- Tenure: Each director shall hold office until the next annual meeting of the stockholders and until his successor is duly elected and qualified, or until he sooner dies, resigns, is removed or becomes disqualified.
- Powers: Except as reserved to the stockholders by law, by the Articles of Organization or by the by-laws, the business of the Company shall be managed by the directors, who shall have and may exercise all the powers of the Company. In particular, and without limiting the generality of the foregoing, the directors may at any time issue all or any part of the capital stock of the Company authorized under the Articles of Organization but not issued and may determine, subject to any requirements of law, the consideration for which stock is to be issued and the manner of allocating such consideration between capital and surplus.
- Committees: The directors may, by vote of a majority of the directors then in office, elect from their number an Executive Committee and other committees and delegate to any such committees some or all of the powers of the directors except those which by law, the Articles of Organization or the Company's by-laws they are prohibited from delegating.
- Regular Meetings: Regular meetings of the directors may be held without call or notice at such places and at such times as the directors may determine, provided that reasonable notice of the first regular meeting following any such determination shall be given to absent directors. A regular meeting of the directors may be held without call or notice immediately after and at the same place as the annual meeting of the stockholders.

HPHC Insurance Company, Inc.

- **Special Meetings:** Special meetings of the directors may be held at any time and at any place designated in the call of the meeting, when called by the Chairman, the Chief Executive Officer, the Treasurer or by two or more directors, reasonable notice thereof being given to each director by the Secretary or an Assistant Secretary, or, if there be none, by the Clerk or an Assistant Clerk, or by the officer or one of the directors calling the meeting.

- **Notice:** It shall be sufficient notice to a director to send notice by mail at least forty-eight hours before the meeting addressed to him at his usual or last known business or residence address, or to give notice to him in person or by telephone at least twenty-four hours before the meeting. Notice of a meeting need not be given to any director if a written waiver of notice, executed by him before or after the meeting, is filed with records of the meeting, or to any director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. Neither such notice of a meeting nor waiver of notice need specify the purposes of the meeting.

- **Quorum:** At any meeting of the directors, a majority of the directors then in office, not less than four (4) directors, shall constitute a quorum. Any meeting may be adjourned by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

- **Action by Vote:** When a quorum is present at any meeting, a majority of the directors present may take any action, except when a greater majority is required by law, the Articles of Organization or the Company's by-laws.

- **Action by Writing:** Any action required or permitted to be taken at any meeting of the directors may be taken without a meeting if all the directors consent to the action in writing and the written consents are filed with the records of the meetings of the directors. Such consents shall be treated for all purposes as a vote taken at a meeting.

- **Presence through Communications Equipment:** Members of the board of directors may participate in a meeting of the Board by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

HPHC Insurance Company, Inc.

At December 31, 2010 the Board was comprised of five (5) directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2010, with business affiliations, were as follows:

<u>Director</u>	<u>Class of Director</u>	<u>Principal Occupation</u>
Eric H. Schultz	Management Director	President and Chief Executive Officer, HPHC, Inc.
James W. DuCharme ¹	Management Director	Chief Financial Officer, HPHC, Inc.
Michelle Clayman	Management Director	Controller, HPHC, Inc.
Gary H. Lin ²	Management Director	Senior Vice President and Chief Actuary, HPHC, Inc.
Laura S. Peabody	Management Director	Senior Vice President and Chief Legal Officer, HPHC, Inc.

¹- James DuCharme was CFO and Treasurer until departing in January, 2012. Mr. DuCharme served as CFO and Treasurer from June 2008 – January 2012. As of the date of this examination report, Harvard Pilgrim continues its search for a replacement.

²- Gary Lin left Harvard Pilgrim in August, 2011. Interim Actuary, Linda A. Grease started in September, 2011. In January 2012, Scott Allen became Senior Vice President and Chief Actuary. On February 15, 2012, Scott Allen was appointed as a Director of the Insurance Company.

Committees of the Board

The board may, by vote of a majority of the directors then in office, elect from their number an Executive Committee and other committees and delegate to any such committee or committees some or all of the powers of the directors except those which by law, the Articles of Organization or the Company's by-laws they are prohibited from delegating. The Board does not currently have any committees.

Officers

The Company's officers consist of a President, Treasurer, Clerk and such other officers, if any, as the Directors or the President 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. A person may hold more than one office at the same time. The officers of the Company shall be elected by the Directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected or appointed by the Board of Directors at said meeting or at any other time.

HPHC Insurance Company, Inc.

The elected officers and their respective titles at December 31, 2010 were as follows:

<u>Officer</u>	<u>Elected Title</u>
Eric H. Schultz	President
James W. Ducharme ¹	Treasurer
Laura S. Peabody	Secretary

¹- James DuCharme was CFO and Treasurer until resigning in January, 2012. Mr. DuCharme served as CFO and Treasurer from June 2008 – January 2012. As of the date of this Examination report, Harvard Pilgrim continues its search for a replacement.

Conflict of Interest Procedures

HPHC, Inc., the parent of HPHC Insurance Co., has adopted a conflict of interest policy statement. HPHC, Inc. has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his/her official duties.

Each director of the Board shall annually deliver to the Board, prior to or about the time of the Annual Meeting, a true and complete conflicts of interest statement ("Conflicts Statement") in the form approved by the Board; provided that each person described above shall deliver only one Conflicts Statement regardless of the number of positions listed above that he or she holds. Each director shall promptly update his or her most recent Conflicts Statement upon the occurrence of any event that makes the information contained in such Conflicts Statement no longer true or that would be required to be reported in such Conflicts Statement at the time it is delivered to the Board.

The completed Conflict of Interest Disclosure Statements for Directors, Officers and Senior Managers for 2008, 2009 and 2010 were reviewed. No discrepancies were noted in the response to the General Interrogatories regarding conflicts of interest as reflected in the Company's December 31, 2010 Annual Statement.

Corporate Records

Board of Directors Minutes

The minutes of the Board meetings for the period under statutory examination were reviewed and indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts.

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.

HPHC Insurance Company, Inc.

Corporate Governance

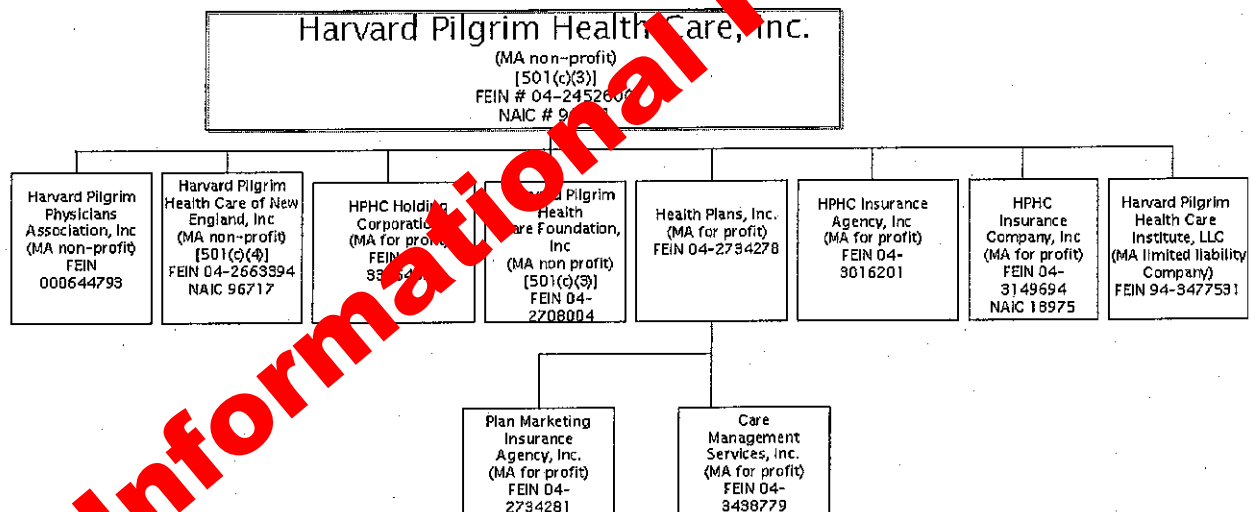
The Company's board of directors has significant influence on the entity's control consciousness. The Board, through its own activities, is responsible for overseeing all financial reporting policies and procedures. The Board appears appropriately experienced and qualified.

During the period under examination and through completion of examination fieldwork, it appears that the Company's internal audit department objectives and strategies are clear and well-documented. Audits were performed on a regular basis with results communicated to senior management, the respective department heads and external auditors. The Company's external auditors did not identify any deficiencies in internal controls that were considered to be material.

AFFILIATED COMPANIES

Organization Chart

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2010 is illustrated below:



Related Party Transactions

The Insurance Company has no employees, and accordingly, HPHC, Inc., provides all administrative services to the Insurance Company, including premium billing and collection, claims payments, and operational management. Administrative and claim adjustment expenses are charged to the Insurance Company based on HPHC, Inc.'s departmental cost allocation methodology. For the years ended December 31, 2010 and 2009, total administrative and claims adjustment expenses charged to the Insurance Company by HPHC, Inc., were \$33.5 million and \$25.7 million, respectively. At December 31, 2010 and 2009, the Insurance Company had a net payable to HPHC, Inc., of \$5.1 million and a receivable of \$10.2 million from HPHC, Inc. respectively. Intercompany balances are settled on a quarterly basis.

HPHC Insurance Company, Inc.

HPI administers a certain product on behalf of the Insurance Company. HPI performs administrative functions associated with the product including enrollment, premium billing, and claims adjudication. The Insurance Company pays a per member per month (PMPM) fee to HPI for the services performed, which totaled \$1.9 million in 2010 and \$1.7 million in 2009. At December 31, 2010 and 2009, the Insurance Company owed HPI \$0.5 million and \$0.4 million respectively, in fees for administering this product.

Due to the significance of the transactions between the Insurance Company and HPHC, Inc., the results of operations of the Insurance Company may not be indicative of the results that would have been attained had the Insurance Company not been a wholly owned subsidiary of HPHC, Inc.

FIDELITY BOND AND OTHER INSURANCE

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

In addition to the bond insurance, the Company has further protected its interests and properties by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2010.

COMMITMENTS AND CONTINGENCIES

Related-Party Guarantees — HPHC, Inc., and its insurance affiliates, the Insurance Company and New England participate in an intercompany 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.

Service Agreement With United Healthcare Services, Inc. — HPHC, Inc., entered into a service agreement whereby United Healthcare Services, Inc. (“United”) administers a national preferred provider organization (“PPO”) product on behalf of the Insurance Company. The national PPO product is a joint product offering between the Insurance Company and United. As part of the service agreement, United performs administrative functions associated with the product, including premium billing and claims adjudication. The Insurance Company pays a per member per month (“PMPM”) fee to United for the services performed. The agreement is effective through December 31, 2016.

Minimum Net Worth — The Insurance Company is subject to the requirement by the state of Maine, 24-A MRSA 410, which requires insurers to have at least \$1 million in capital stock and surplus as well as Maine, 24-A MRSA 412 which requires insurers to maintain a minimum \$100,000 deposit with the state of Maine. As of December 31, 2010 and 2009, the minimum net worth requirement had been satisfied.

PENSION AND OTHER POST RETIREMENT BENEFIT PLANS

HPHC Insurance Co. has no employees. Refer to Related Party Transactions above.

HPHC Insurance Company, Inc.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the Commonwealth of Massachusetts and the States of Connecticut, Maine and New Hampshire. Harvard Pilgrim Health Care Insurance Company, Inc. is headquartered in Wellesley, MA. As of December 31, 2010, The Insurance Company's service area included all of Massachusetts with a focus on the greater metropolitan Boston area.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2010 are as follows:

Description	On Deposit	Par or Book Value	State Value	Market Value
US Treasury Stripped, 8/15/11	KeyBanc Capital Markets, Augusta, ME – State of Maine Reserve	\$126,000	\$125,835	\$125,827
US Treasury Notes, 6.375%, 6/15/2027; US Treasury Notes, 6.250%, 8/15/2023; FNMA, 4.375%, 3/15/13	Bank of America, Boston, MA – State of New Hampshire Insurance Division	950,000	1,155,228	1,155,379
Totals		\$1,076,000	\$1,281,063	\$1,281,206

LEGAL PROCEEDINGS

The Insurance Company is involved in legal actions in the ordinary course of business. In the opinion of management, there are no legal proceedings pending against or involving the Insurance Company whose outcome is likely to have a material adverse effect upon the statutory financial statements.

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting ("CPA") firm of Deloitte & Touche LLP, in accordance with 211 CMR 23.00. The CPA firm issued an unqualified opinion on the audited financial statements for the 3 years ended December 31, 2010. The Company is also subject to review by an internal audit department.

As part of its engagement for the Division, KPMG performed a review and evaluation of the control environment of the Company's IT systems. The NAIC's Information Systems Questionnaire completed by the Company was reviewed and interviews with Company management and IT staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. Included was a review of the documentation supporting management and organization controls, application systems development and maintenance controls, operating and processing controls, logical and physical security controls, contingency planning controls, personal computers, local area network ("LAN"), wide area network ("WAN") and internet controls.

The control environment of the Company's information systems was found to have in place sufficient internal controls. There were no material internal control weaknesses noted in connection with the examination, nor were any such matters reported in the CPA firm's filings with the Division. The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2010 Annual Statement. No material exceptions were noted.

HPHC Insurance Company, Inc.

FINANCIAL STATEMENTS

The Financial Statement section includes the following: Page

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Capital & Surplus for the Year Ended December 31, 2010 17

Statement of Changes in Capital & Surplus for Three Years Ended December 31, 2010 18

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance or by the National Association of Insurance Commissioners as of December 31, 2010.

HPHC Insurance Company, Inc.

HPHC Insurance Company, Inc.
Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2010

	Per Company	Examination Changes	Per Statutory Examination
Assets			
Bonds	\$ 69,367,797	\$ 0	\$ 69,367,797
Cash, cash equivalents and short-term investments	(300,302)		(300,302)
Subtotals, cash and invested assets	\$ 69,067,495	\$ 0	\$ 69,067,495
Investment income due and accrued	483,665		483,665
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	15,704,928		15,704,928
Reinsurance:			
Amounts recoverable from reinsurers	1,660,332		1,660,332
Amounts receivable relating to uninsured plans	20,211,972		20,211,972
Current federal and foreign income tax recoverable and interest thereon	1,570,056		1,570,056
Net deferred tax asset	1,811,321		1,811,321
Health care and other amounts receivable	2,868,327		2,868,327
Total Assets	<u>113,378,096</u>	<u>\$ 0</u>	<u>\$ 113,378,096</u>
Liabilities			
Claims unpaid	38,883,040		38,883,040
Unpaid claims adjustment expenses	543,896		543,896
Aggregate health policy reserves	13,027,775		13,027,775
Premiums received in advance	6,656,673		6,656,673
General expenses due and accrued	4,220,975		4,220,975
Ceded reinsurance premiums payable	2,137,030		2,137,030
Amounts due to parent, subsidiaries and affiliates	5,608,758		5,608,758
Liabilities for amounts held under uninsured accident and health plans	5,577,287		5,577,287
Total Liabilities	<u>\$ 76,655,434</u>	<u>\$ 0</u>	<u>\$ 76,655,434</u>
Capital and Surplus			
Common capital stock	1,067,000		1,067,000
Gross paid in contributed surplus	17,334,000		17,334,000
Unassigned funds (surplus)	18,321,662		18,321,662
Total Capital and Surplus	<u>\$ 36,722,662</u>	<u>\$ 0</u>	<u>\$ 36,722,662</u>
Total Liabilities, Capital and Surplus	<u>\$ 113,378,096</u>	<u>\$ 0</u>	<u>\$ 113,378,096</u>

HPHC Insurance Company, Inc.

HPHC Insurance Company, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2010

	Per Company	Examination Changes	Per Statutory Examination
Member Months	1,110,735	-	1,110,735
Net premium income	\$ 368,290,675	\$ 0	368,290,675
Change in unearned premium reserves and reserve for rate credits	(7,024,900)		(7,024,900)
Total revenues	\$ 361,265,775	\$ 0	361,265,775
Hospital and Medical:			
Hospital/medical benefits	232,595,637		232,595,637
Other professional services	10,681,266		10,681,266
Outside referrals	4,261,718		4,261,718
Emergency room and out-of-area	6,149,489		6,149,489
Prescription drugs	48,145,465		48,145,465
Aggregate write-ins for other hospital/medical	245,900		245,900
Subtotal	302,079,475	0	302,079,475
Less			
Net reinsurance recoveries	(4,597,274)		(4,597,274)
Total medical and hospital	306,676,749	0	306,676,749
Claims adjustment expenses	9,514,037		9,514,037
General administrative expenses	35,364,467		35,364,467
Total underwriting deductions	351,555,253	0	351,555,253
Net underwriting gain	9,710,522	0	9,710,522
Net investment income earned	2,207,313		2,207,313
Net realized capital losses	(8,445)		(8,445)
Net investment gains	2,198,868	0	2,198,868
Net Income before taxes	11,909,390	0	11,909,390
Federal and foreign income taxes incurred	4,542,040		4,542,040
Net income	\$ 7,367,350	\$ 0	\$ 7,367,350

HPHC Insurance Company, Inc.

HPHC Insurance Company, Inc.
Capital & Surplus
For the Year Ended December 31, 2010

	Per Company	Examination Changes	Per Statutory Examination
Statutory net worth, December 31, 2009	\$ 28,953,652	\$ 0	\$ 28,953,652
Net Income	7,367,350		7,367,350
Change in net unrealized gain	124,083		124,083
Change in net deferred income tax	326,223		326,223
Decrease in nonadmitted assets	(48,646)		(48,646)
Statutory net worth, December 31, 2010	<u>\$ 36,722,662</u>	<u>\$ 0</u>	<u>\$ 36,722,662</u>

For Informational Purposes Only

HPHC Insurance Company, Inc.

HPHCs Insurance Company, Inc.
Statement of Changes in Capital & Surplus
For Three Year Period Ended December 31, 2010

	2010	2009	2008
Statutory net worth, prior year	\$ 28,953,652	\$ 20,840,944	\$ 23,350,108
Net Income	7,367,350	7,905,762	(2,307,712)
Change in net unrealized capital gains (losses)	124,083	(116,583)	(7,500)
Change in net deferred income tax	326,223	259,817	832,248
Change in nonadmitted assets	(48,646)	63,712	(1,026,200)
Net change in capital and surplus	7,769,010	8,112,708	(2,509,164)
Statutory net worth, December 31, current year	\$ 36,722,662	\$ 28,953,652	\$ 20,840,944

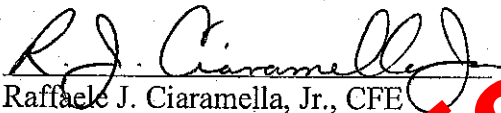
For Informational Purposes Only

ACKNOWLEDGEMENT

This is to certify that the undersigned is a duly qualified Certified Financial Examiner ("CFE") and that, in conjunction with KPMG LLP, applied certain agreed upon procedures to the accounting and corporate records of Harvard Pilgrim Health Care Insurance Company, Inc. in order for the Division to fulfill the Commonwealth of Massachusetts' requirements regarding periodic statutory examinations of Massachusetts domiciled insurers.

The undersigned's participation in this statutory examination as the Examiner-in-Charge encompassed responsibility for the coordination and direction of the statutory examination performed which was in accordance with, and complied with, those standards established by the Financial Condition (E) Committee of the NAIC and the NAIC Financial Condition Examiners' Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed upon procedures), administration, review of work papers and preparation of the statutory examination report.

The cooperation and assistance of the officers and employees of Harvard Pilgrim Health Care Insurance Company, Inc. extended to all examiners during the course of the examination is hereby acknowledged.



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance