



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

Division of Insurance

Report on the Statutory Examination of
Harvard Pilgrim Health Care of New England, Inc.

Wellesley, Massachusetts

As of December 31, 2004

NAIC COMPANY CODE: 96717

EMPLOYERS ID NUMBER: 04-2663394

Commonwealth of Massachusetts Division of Insurance
REPORT ON THE STATUTORY EXAMINATION OF
HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, INC.

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

December 30, 2005

Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Commonwealth of Massachusetts
One South Station
Boston, Massachusetts 02110

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner, Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, VA 23218

Honorable Commissioners:

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 the

HARVARD PILGRIM HEALTH CARE OF NEW ENGLAND, INC.

at its home office located at:

93 Worcester Street
Wellesley, MA 02481

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This statutory examination of Harvard Pilgrim Health Care of New England, Inc., hereinafter referred to as "the Company" or "New England" is as of December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. KPMG LLP (KPMG) has applied certain agreed upon procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Commonwealth of Massachusetts Division of Insurance ("the Division" or "the DOI").

The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Division. The statutory examination was performed at the Company's home office in Wellesley, Massachusetts. KPMG was engaged to perform certain agreed-upon procedures which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and claim adjustment expenses and provider risk sharing settlements as of December 31, 2004. KPMG's Information Risk Management (IRM) personnel were engaged to perform an Evaluation of Controls in Information Systems Questionnaire in a form substantially similar to the one established in the *NAIC Financial Condition Examiners' Handbook*. The IRM Specialists performed examination procedures pertaining to the examination of the EDP System as outlined in the *NAIC Financial Condition Examiners' Handbook*. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

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*.

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 Division placed reliance on certain workpapers provided by the Company's external auditors, Deloitte & Touche, LLP. Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

DESCRIPTION OF COMPANY

History

New England was incorporated on November 18, 1978 and commenced operations as a health insurance plan on October 1, 1980. New England is an affiliate of Harvard Pilgrim Health Care, Inc. (HPHC, Inc. or Harvard Pilgrim).

Organization

New England operates as a health maintenance organization providing comprehensive health insurance, access to health care and other related services in Massachusetts and New Hampshire to group and Medicare members through contracts with physicians, established primary care and multi-specialty physician groups, hospitals and other health care providers. New England is a tax-exempt organization under Section 501(c) (4) of the Internal Revenue Code.

Plan of Rehabilitation

New England, together with Harvard Pilgrim Health Care, Inc., was placed in temporary receivership for purposes of rehabilitation in January of 2000. On May 24, 2000, a Plan of Rehabilitation (the "Plan") was approved by The

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Supreme Judicial Court for Suffolk County and on June 21, 2000, the temporary receivership was dismissed. As part of the court order, Harvard Pilgrim will remain subject to administrative supervision of the Commissioner of the Massachusetts Division of Insurance for so long as the requirement of the Plan that the Commissioner give prior approval to the payment of principal and interest on the Series 1998 Bonds (the "Condition imposed under the Plan") remains in effect.

The court approved Plan also allowed Harvard Pilgrim to increase the carrying value of certain of its real estate to its fair market value as of the date of the Plan. The Plan further required the conversion to Surplus Notes of substantially all outstanding pre-receivership general unsecured obligations of Harvard Pilgrim except for obligations to members, providers and the Series 1998 Bonds. The Surplus Notes are subject to repayment only if the Commissioner approves such payments of principal and interest. The Surplus Notes carry an interest rate of 9.5% and are to be paid in equal installments over a ten-year period. The court approved Plan further required that payment of interest and principal on the Bonds be subject to the Condition. As a consequence of the Condition, the Bonds qualified for the same accounting treatment as the Surplus Notes under the Statutory Accounting Principles promulgated by the National Association of Insurance Commissioners (NAIC). At December 31, 2004, approximately \$9.7 million of Surplus Notes and \$136.1 million of Bonds were reported as a component of net worth. Additionally, Harvard Pilgrim was required to establish a debt service reserve fund and deposit monthly one-sixth of the amount due on the next succeeding payment date, unless to do so would reduce its statutory net worth below \$130 million. Since the Plan's inception, all payments of interest and principal under the Surplus Notes and Series 1998 Bonds have been approved.

Harvard Pilgrim is required to request termination of the Condition imposed under the Plan and authority to prepay all amounts due under the Surplus Notes when it has attained an audited statutory net worth of at least \$130 million, irrespective of the net worth provided from the Bonds, and after satisfaction of all amounts due under the Surplus Notes. In 2004, Harvard Pilgrim and Financial Security Assurance Inc ("FSA"), the Bonds insurer, entered into an agreement which provides that the requirement of the Plan that the Commissioner give prior approval to the payment of principal and interest on the Bonds remain in effect for the life of the Bonds after termination of the Condition imposed under the Plan. As a result of this agreement, the Bonds will continue to be treated as surplus notes after termination of the Condition imposed under the Plan.

See "Subsequent Events" section of the Examination Report which discusses the June 24, 2005 prepayment of the Surplus Notes.

Capital and Surplus

As a nonprofit organization, New England does not have issued capital. The total admitted assets, total liabilities and Capital and Surplus of the Company from 2002 to 2004 is shown in the following schedule.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital & Surplus</u>
2002	\$ 26,427,163	\$ 15,967,505	\$ 10,459,658
2003	28,547,991	15,651,881	12,896,110
2004	37,286,771	21,201,809	16,084,962

MANAGEMENT AND CORPORATE RECORDS

Articles of Organization and By-Laws

The Company's By-Laws may be amended or repealed, and new by-laws may be adopted only by a vote of the member of the Company.

Members and Membership

The Company's By-Laws indicate the following regarding its corporate membership:

- The Company shall have one member. The sole member of this Corporation shall be Harvard Pilgrim Health Care, Inc.

BOARD OF DIRECTORS

The Company's By-Laws indicate the following regarding its Board of Directors (the "Board"):

- The board of directors shall be composed of a number of directors to be fixed each year by the member and designated at the annual meeting or at any special meeting held in lieu thereof.
- Each Director shall serve until the next annual meeting or special meeting held in lieu thereof, and until his/her successor is chosen and qualifies.

At December 31, 2004 the Board was comprised of three (3) directors which is in compliance with the Company By-Laws. Directors duly elected and serving at December 31, 2004, with addresses and business affiliations, follow:

<u>Director</u>	<u>Class of Director</u>	<u>Principal Occupation</u>
Charles D. Baker Swampscott, MA	Management Director	President and Chief Executive Officer HPHC, Inc.
Joseph C. Capezza Natick, MA	Management Director	Chief Financial Officer HPHC, Inc.
Bruce M. Bullen Weston, MA	Management Director	Chief Operating Officer HPHC, Inc.

Committees of the Board

The Board shall appoint from within or without its own membership such standing and special committees as it finds desirable in assisting in its management of the Corporation. The Board does not currently have any committees.

OFFICERS

The Company's officers consist of a Chairperson, President, Treasurer, Clerk to serve for terms of one year or until their successors are elected and duly qualified. The Board may appoint such additional officers as it shall deem fit. The officers so elected and appointed shall be the officers of the Company. The President shall be the Chief Executive Officer of the Company.

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The elected officers and their respective titles at December 31, 2004 were as follows:

<u>Officer</u>	<u>Position</u>
Charles D. Baker	President
Joseph C. Capezza	Treasurer
Laura S. Peabody	Secretary

Subsequent to December 31, 2004 and pursuant to votes adopted as of September 6, 2005, the following officers were appointed to the positions indicated:

Charles D. Baker	President
Joseph C. Capezza	Treasurer
Laura S. Peabody	Secretary

CONFLICT OF INTEREST PROCEDURES

Harvard Pilgrim, the parent of the Company, has adopted a conflict of interest policy statement which is applied to the officers and directors of the Company. Harvard Pilgrim has an established procedure for the disclosure to the president or chairperson of any financial interest on the part of any officer or director which is in or is likely to be in conflict with his/her official duties. The financial interest shall be made a matter of record through such annual or other reporting and certification procedure as the board of directors shall require from time to time. After disclosure of the financial interest and all material facts, and any discussion with the fiduciary, the Board shall determine whether any conflict of interest exists. The fiduciary shall leave the board meeting while the determination of a conflict of interest is discussed and voted upon. The minutes of the board meeting shall include the names of the fiduciaries who disclosed financial interests, the nature of the financial interests, and whether the Board determined there was a financial interest.

Review of the 2004 Harvard Pilgrim board of directors records identified potential conflicts, noting that none was of any financial significance.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

Our review of the By-Laws and Articles of Incorporation indicated that there were no changes since the prior examination.

Board of Directors Minutes

The minutes of the Board for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company By-Laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were reported upon at various meetings of the Board.

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

See 'Organization' and 'Plan of Rehabilitation' on page 4.

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

Harvard Pilgrim Health Care, Inc.

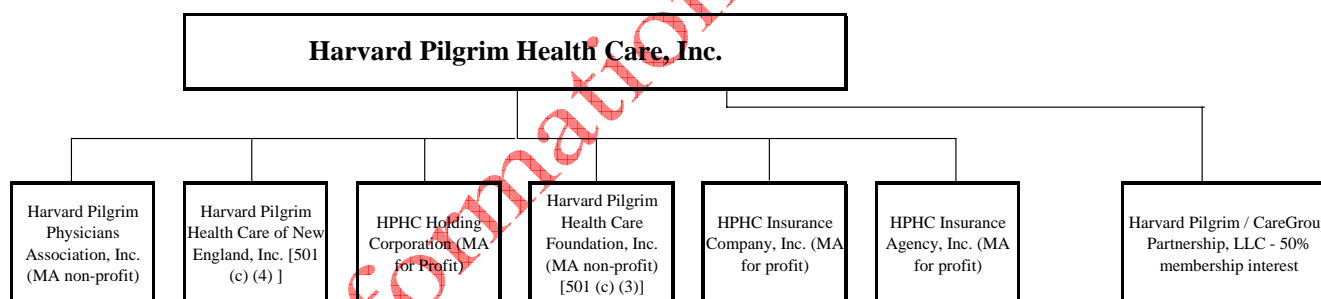
HPHC, Inc., a not-for-profit Massachusetts corporation, operates as a not-for-profit health insurance plan, providing comprehensive health insurance, access to health care and other related services in Massachusetts and Maine to group, individual, and Medicare members through contracts with physicians, established primary care and multi-specialty physician groups, hospitals and other health care providers.

HPHC Insurance Company, Inc. (The Insurance Company)

The Insurance Company, formerly known as Harvard Pilgrim Insurance Company, Inc. is a wholly-owned, for-profit subsidiary of HPHC, Inc. 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 risks related to out-of-network coverage for HPHC, Inc. members in its POS plan. The Insurance Company also underwrites health insurance for two additional group products, a PPO indemnity and a Medicare indemnity product.

Subsidiaries and Affiliated Companies

A summary of ownership and relationship of the Company and its parent and affiliated companies as of December 31, 2004 is illustrated below:



RELATED PARTY TRANSACTIONS

HPHC, Inc. is the sole corporate member of New England. New England has no employees and, accordingly, HPHC, Inc. provides all administrative services to New England including premium collection, claims payments, and operational management. New England has a Management and Medical Services Agreement (MMSA) with HPHC, Inc., which provides for an allocation of hospital and medical and administrative costs from HPHC, Inc. to New England. Hospital and medical expenses are charged based on the actual incurred claims experience of New England. Administrative expenses are charged to New England based on Harvard Pilgrim's departmental cost allocation methodology. For the years ended December 31, 2004 and 2003, total administrative and claims adjustment expenses charged to New England were \$18.9 million and \$15.1 million, respectively. At December 31, 2004, New England had a net payable to HPHC, Inc. of \$0.6 million and at December 31, 2003, New England had a net receivable from HPHC, Inc. of \$0.9 million, related to administrative services provided.

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Due to the significance of the transactions between New England and HPHC, Inc., the results of operations of New England may not be indicative of the results which would have been attained had New England not been a wholly-owned subsidiary of HPHC, Inc.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity bond coverage with an authorized Massachusetts insurer, consistent with Massachusetts General Laws, Chapter 175 § 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interest and property by acquiring policies of insurance covering other insurable risks. All coverage, including its Directors and Officers Liability policy, is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2004.

PENSION AND INSURANCE PLANS

Employees' Retirement Plan

New England has no employees. See Related Party Transactions, above.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2004 are as follows:

Description of Deposit	Where Deposited	Par or Book Value	Statement Value	Market Value
U.S. Treasury Note 6 1/8% 8/15/07 FA15	Fleet National Bank, Boston, MA – State of New Hampshire	\$ 255,000	\$ 277,296	\$ 273,666
U.S. Treasury Note 6 1/2% 10/15/06 AO15	Fleet National Bank, Boston, MA – State of New Hampshire	1,150,000	1,162,345	1,218,908
U.S. Treasury Note 2 1/2% 5/31/06 MN31	Fleet National Bank, Boston, MA – State of New Hampshire	500,000	497,991	497,130
U.S. Treasury Note 2 7/8% 11/30/06 MN30	Fleet National Bank, Boston, MA – State of New Hampshire	500,000	499,504	498,440
U.S. Treasury Obligations #68	Fleet National Bank, Boston, MA – State of New Hampshire	56,579	56,579	56,579
		<u>\$ 2,461,579</u>	<u>\$ 2,493,715</u>	<u>\$ 2,544,723</u>

PRODUCTS

HMO – the HMO product is available through employers in New Hampshire. The HMO features comprehensive coverage for a wide range of preventive and medical services, including routine office visits, well-baby care, immunizations, hospitalization and worldwide emergency care. In some benefits packages, prescription drug coverage may also be included. HMO members choose a primary care physician who will provide or arrange care for all of their medical needs. In addition, services are typically covered in full with co-payments, which eliminates the hassle of bills or claim forms.

POS - the POS plan is available through employers in New Hampshire. The POS Plan features comprehensive coverage for a wide range of preventive and medical services, including routine office visits, well-baby care, immunizations, hospitalization and worldwide emergency care. In some benefits packages, prescription drug coverage may also be included. Under the POS Plan, members choose a primary care physician (PCP) who provides or arranges

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most in-network care. In addition, POS members may visit doctors, hospitals and other providers that do not belong to New England's participating provider network without their PCP's referral. When provided or arranged by a PCP, services are typically covered in full with co-payments. Services received without a PCP referral or outside New England's participating provider network are typically subject to deductibles and coinsurance.

Best Buy HMO and POS – New England also offers Best Buy HMO and POS plans in New Hampshire. These plans have many of the same features as traditional HMO and POS plans, but their premiums are generally lower. The plans have additional cost sharing responsibilities like deductibles, coinsurance and/or higher co-payments.

Nongroup - New England also offers an HMO conversion nongroup plan for members who convert from employer group coverage also through New England.

First Seniority - First Seniority is a Medicare Advantage health plan for people who are on or entitled to Medicare. First Seniority generally offers more benefits than original Medicare and costs less than some Medicare supplemental plans.

PROVIDER CONTRACTS

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with Provider Groups and other health care providers. Provider Groups 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.

For the HMO product, participating hospitals and physicians are reimbursed under a variety of arrangements including risk incentive agreements whereby favorable and unfavorable claims experience is shared. Payments to participating physicians for medical claims are generally subject to a percentage withhold by the Company. Distribution of such withhold is contingent upon the results of the risk incentive arrangements. Certain physician groups are paid capitation and assume full risk for providing hospital and medical services for these members. Participating hospitals and physicians are also reimbursed on a fee for service basis and can be eligible for bonuses based on meeting prescribed quality performance measures.

RESERVES

In conjunction with KPMG's examination of the statutory financial statements of the Company, KPMG was engaged by the Division to review the adequacy of the Unpaid Claim Liability (UCL) of the Company as of December 31, 2004.

KPMG actuaries prepared independent estimates of the unpaid claim liabilities for several periods prior to July 2005 based on paid claim triangles and membership information. Monthly claim payments were provided by month of service for the period from January 2002 to July 2005. For December 31, 2004, completion factors for the projection of ultimate incurred claims were developed using historical payment patterns and actuarial judgment. The "last 6" methodology was used in developing completion factors for the "Mid" estimate. The methodology considers the prior six months of claims payment patterns in calculating completion factors. This is among accepted methodologies that are widely used for calculating completion factors. "Low" and "High" estimates were developed by adjusting completion factors to reflect slightly faster and slower payment speeds. As the Company pays quickly, the range of estimates for the December 31, 2004 UCL is narrow and KPMG's estimates are similar to the Company's estimates with hindsight through July 31, 2005.

Based upon KPMG's review, the Unpaid Claims Liability at December 31, 2004 appears to be fairly stated in all material respects. The Company made a separate provision for Claim Adjustment Expenses (LAE/CAE) in 2004 in

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accordance with standard actuarial practice. The method used is reasonable, and results have been consistent from year to year. The resulting expense percentage levels used are within industry norms.

REINSURANCE

New England carries reinsurance against excessive utilization on a per-member basis. Under these policies, New England is reimbursed 90% of certain hospital inpatient, hospital outpatient and pharmacy claims over the policy deductibles, which range from \$150,000 to \$500,000. Inpatient hospital claims are subject to Maximum Daily Allowance. Outpatient hospital and pharmacy claims are subject to additional policy sub-limits. The maximum recoverable under the reinsurance agreement is \$2,000,000 for each member per year. There were no reinsurance balances at years ended December 31, 2004 and 2003.

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting firm of Deloitte & Touche LLP, in accordance with 211 CMR 43.14. The CPA Firm issued an unqualified opinion on the December 31, 2004 audited financial statements. The Company is also subject to review by an internal audit department.

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants. No material deficiencies were noted. 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 EDP systems environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Risk Management (IRM) team that evaluated the adequacy of the EDP controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2004 Annual Statement. No material exceptions were noted.

The Company has an internal audit department, including staff experienced in financial and information systems audits, who perform periodic audits of the Company's systems, controls and operational processes. KPMG reviewed the Internal Audit reports issued during the period under examination, and considered the results of the audits and, where appropriate, relied on the results during the application of the agreed-upon procedures.

SUBSEQUENT EVENTS

March 7, 2005 - Harvard Pilgrim Healthcare, Inc. acquired Health Plans, Inc. (HPI), a third-party administrator located in Massachusetts, for cash plus additional future cash consideration, provided that HPI meets certain profitability targets. The majority of the purchase price will be attributed to goodwill. HPI provides health, dental and short-term disability benefits administration to approximately 80,000 members in Massachusetts, New Hampshire and Maine.

June 24, 2005 – The Massachusetts Division of Insurance approved prepayment in full, as of June 30, 2005, of all Surplus Notes issued by Harvard Pilgrim Health Care, Inc. and Harvard Pilgrim Health Care of New England, Inc. (collectively "HPHC"), to General Unsecured Creditors pursuant to 79(a) of the HPHC Plan of Rehabilitation. As of June 30, 2005 the Surplus Notes were paid in full. – See "Plan of Rehabilitation" section of the Examination Report.

COMMITMENTS AND CONTINGENCIES

Legal Proceedings

None.

FINANCIAL STATEMENTS

The Financial Statement section includes the following:

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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, 2004.

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Harvard Pilgrim Health Care of New England, Inc.
Statutory Statement of Assets, Liabilities, and Capital & Surplus
As of December 31, 2004

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>			
Bonds	\$ 34,430,409	\$ -	\$ 34,430,409
Cash, cash equivalents and short-term investments	1,287,086	-	1,287,086
Subtotals, cash and invested assets	35,717,495	-	35,717,495
Investment Income due and accrued	266,186	-	266,186
Premiums and Considerations:			
Uncollected premiums and agents' balances in course of collection	752,684	-	752,684
Amounts receivable relating to uninsured plans	550,406	-	550,406
Total Assets	\$ 37,286,771	\$ -	\$ 37,286,771
<u>LIABILITIES</u>			
Claims unpaid	\$ 15,436,138	\$ -	\$ 15,436,138
Unpaid claims adjustment expenses	196,211	-	196,211
Premiums received in advance	3,622,413	-	3,622,413
General expenses due or accrued	486,214	-	486,214
Amounts due to parent, subsidiaries and affiliates	555,492	-	555,492
Payable for securities	789,761	-	789,761
Liability for amounts held under uninsured accident and health plans	115,580	-	115,580
Total Liabilities	\$ 21,201,809	\$ -	\$ 21,201,809
<u>CAPITAL & SURPLUS</u>			
Unassigned funds (surplus)	\$ 16,084,962	\$ -	\$ 16,084,962
Total capital and surplus	\$ 16,084,962	\$ -	\$ 16,084,962
Total Liabilities, Capital and Surplus	\$ 37,286,771	\$ -	\$ 37,286,771

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Harvard Pilgrim Health Care of New England, Inc.
Analysis of Assets Exhibit
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets	Statutory Examination Adjustment	Per Statutory Examination
<u>ASSETS</u>					
Bonds	\$ 34,430,409	\$ -	\$ 34,430,409	\$ -	\$ 34,430,409
Cash, cash equivalents and short-term investments	1,287,086	-	1,287,086	-	1,287,086
Subtotals, cash and invested assets	35,717,495	-	35,717,495	-	35,717,495
Investment Income due and accrued	266,186	-	266,186	-	266,186
Premiums and Considerations:			-		
Uncollected premiums and agents' balances in the course of collection	828,612	75,928	752,684	-	752,684
Amounts receivable relating to uninsured plans	550,406	-	550,406	-	550,406
Total Assets	\$ 37,362,699	\$ 75,928	\$ 37,286,771	\$ -	\$ 37,286,771

For Information Purposes Only

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Harvard Pilgrim Health Care of New England, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2004

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
<i>Member Months</i>	509,081		509,081
Net premium income	\$ 138,946,544	\$ -	\$ 138,946,544
Total Revenues	138,946,544	-	138,946,544
Hospital and Medical:			
Hospital/medical benefits	85,725,804	-	85,725,804
Other professional services	2,367,695	-	2,367,695
Outside referrals	3,146,547	-	3,146,547
Emergency room and out-of-area	2,804,753	-	2,804,753
Prescription drugs	20,190,861	-	20,190,861
Subtotal	114,235,660	-	114,235,660
Less:			
Net reinsurance recoveries	-	-	-
Total hospital and medical	114,235,660	-	114,235,660
Claims adjustment expenses	10,099,411	-	10,099,411
General administrative expenses	12,132,619	-	12,132,619
Total underwriting deductions	136,467,690	-	136,467,690
Total underwriting gain	2,478,854	-	2,478,854
Net investment income earned	732,311	-	732,311
Net realized capital gains	53,615	-	53,615
Net investment gains	785,926	-	785,926
Net Income	\$ 3,264,780	\$ -	\$ 3,264,780

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Harvard Pilgrim Health Care of New England, Inc.
Capital and Surplus
As Of December 31, 2004

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2003	\$ 12,896,110	\$ -	12,896,110
Net income	3,264,780	-	3,264,780
Change in nonadmitted assets	(75,928)		(75,928)
Net change in capital and surplus	3,188,852		3,188,852
Capital and Surplus, December 31, 2004	<u>\$ 16,084,962</u>	<u>\$ -</u>	<u>\$ 16,084,962</u>

For Information Purposes Only

ACKNOWLEDGMENT

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 the Harvard Pilgrim Health Care of New England, Inc. in order for the Division of Insurance of the Commonwealth of Massachusetts to fulfill the Commonwealth's 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 substantially complied with, those standards established by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (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, Inc. extended to all examiners during the course of the examination is hereby acknowledged.

John Smallwood, CFE
Chief Examiner & Examiner in Charge (EIC)
Commonwealth of Massachusetts
Division of Insurance
Boston, MA

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