

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

REPORT OF EXAMINATION OF THE
NEIGHBORHOOD HEALTH PLAN, INCORPORATED

Somerville, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 0000

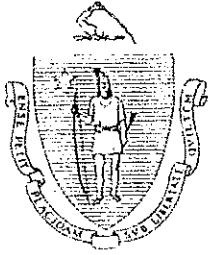
NAIC COMPANY CODE 11109

EMPLOYERS ID NO. 04-2932021

NEIGHBORHOOD HEALTH PLAN, INCORPORATED

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COMMONWEALTH OF MASSACHUSETTS
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COMMISSIONER OF INSURANCE

May 1, 2019

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 176G, Section 10, an examination has been made of the financial condition and affairs of

NEIGHBORHOOD HEALTH PLAN, INCORPORATED

at its home office located at 399 Revolution Drive, Somerville, Massachusetts, 02145-1446. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Neighborhood Health Plan, Inc. ("Plan", "Company" or "NHP") was last examined as of December 31, 2014 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2015 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176G, Section 10, 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 PricewaterhouseCoopers LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2015 through 2017. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent consulting firm, Risk and Regulatory Consulting, LLC ("RRC") was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2017. Additionally, RRC reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

The examination included a review to verify the current status of findings commented upon in the Report of Examination as of December 31, 2014. There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

The Plan was founded by the Massachusetts League of Community Health Centers ("League") and the Greater Boston Forum for Health Action ("Forum"), and incorporated on May 22, 1986 under the provisions of Massachusetts General Law ("M.G.L."), Chapter 180 for the purpose of arranging for the delivery of comprehensive health services on a prepaid basis. On November 9, 1987, the Division licensed the Plan to operate as a Health Maintenance Organization ("HMO") under the provisions of M.G.L. Chapter 176G. The Plan is a non-profit HMO, which contracts with individuals, businesses and the Commonwealth of Massachusetts to provide health care coverage to individuals, employees, Medicaid beneficiaries and Exchange participants. Initially allowed to conduct business in greater Boston only, the Plan now operates throughout Massachusetts.

In September 1999, Community Medical Alliance Clinical Group became a wholly owned affiliate of NHP. In January 2000, Community Medical Alliance Clinical Group changed its name to Community Medical Alliance, Inc., ("CMA"). CMA provides direct care and care management services to certain Plan members and is reimbursed by the Plan on a capitated basis.

NHP became an affiliate of Partners HealthCare System, Inc. ("Partners") on October 1, 2012. Partners is a Massachusetts not-for-profit corporation which operates two tertiary and seven community acute care hospitals in Massachusetts. Partners also operates physician organizations and practices, a home health agency, nursing homes, and a graduate level program for health professionals. As part of the Affiliation Agreement, Partners contributed capital to NHP to retire the Blue Cross Blue Shield of Massachusetts Surplus Note along with the associated accrued interest for \$10.1 million. Partners also contributed \$1.4 million to retire the Deferred Lease Liability on NHP's home office rental property at 253 Summer Street.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Plan shall be managed by the Board of Directors ("Board") who shall manage the business and affairs of the Plan. The Board shall consist of thirteen Directors with one Director being the President and Chief Executive Officer ("CEO") of NHP, who shall serve *ex officio*. Twelve other members will be elected by the Partners Board of Directors. Eight elected Directors (one of whom will be a sitting member of Partners Board of Directors) will be nominated by Partners after consultation with a designated representative of the Health Center Directors. Four elected Directors ("Health Care Directors") will be community health center chief executive officers or other community health center leaders who are nominated by the President and Chief Executive Officer of NHP and the Chief Executive Officer of the Massachusetts League of Community Health Centers.

Neighborhood Health Plan, Inc.

At December 31, 2017, the Company's Board of Directors consisted of the following:

<u>Name of Director</u>	<u>Business Affiliation</u>
Matthew E. Fishman Chairman	Vice President, Community Health Partners HealthCare System
Richard Holbrook	Chairman Emeritus Eastern Bank
James W. Hunt, Jr.	President and Chief Executive Officer Massachusetts League of Community Health Centers
Anthony James	Senior Vice President Massachusetts General Hospital
Toni McGuire	President and Chief Executive Officer Edward M. Kennedy Community Health Center
G. Neal Ryland	Chairman of the Compensation Committee for the Massachusetts General Physicians Organization
David H. Segal (<i>Ex Officio</i>)	President and Chief Executive Officer Neighborhood Health Plan, Inc.
Allen L. Smith, M.D.	President, Brigham and Women's Physicians Organization
Steven J. Tringale	Managing Director Tringale Health Strategies, LLC
Michael J. Widmer	Former President Massachusetts Taxpayers Foundation
Anne M. Wilkins	Managing Director Wilkin's Advisors, LLC

Officers

The bylaws provide that the officers of the Plan shall have a Chair, a President and CEO, a Secretary and a Treasurer. The Directors may elect other officers at any time, while also specifying the title, powers, duties and term of office. The officers are elected at the first meeting of the Directors following each annual meeting and serve until the next meeting following the annual meeting.

The elected officers and their respective titles at December 31, 2017 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Matthew Fishman	Chair and Director
David H. Segal	President and Chief Executive Officer
Peter K. Markell	Treasurer
Joseph C. Capezza	Chief Financial Officer
John R. Higham	Secretary

Neighborhood Health Plan, Inc.

Committees of the Board of Directors

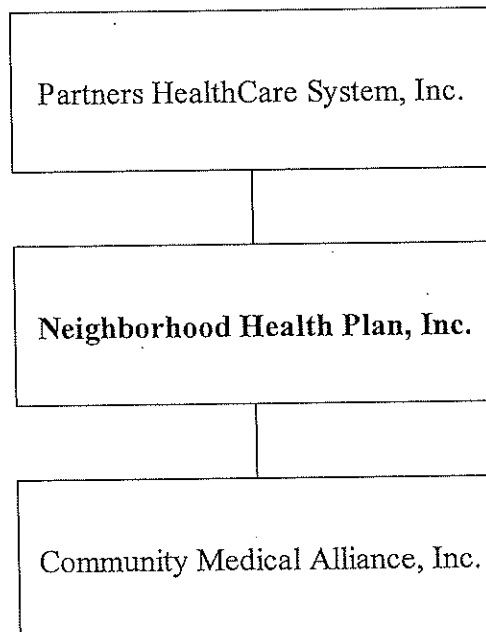
The Company's bylaws require the Board to appoint a Patient Care Assessment ("PCA") Committee (this committee has been renamed to Quality Program Committee) which shall be designated as a standing peer review committee. The Quality Program Committee shall make recommendations and decisions concerning the patient care assessment program. The Board has an Audit and Compliance Committee which consists of four independent directors. This committee oversees internal controls; financial reporting, corporate compliance and the adequacy of audit efforts, both internal and external. In addition the following board committees were active as of the examination date: Finance Committee, Compensation Committee, Public Policy Committee and a Strategic Planning Committee.

Holding Company

As stated in the Insurance Holding Company System Form B, Form C and Form F as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. Chapter 176G, Section 28 and Regulation 211 CMR 7.00. Partners is the ultimate controlling person for the Plan.

Organization Chart

The ownership and relationship of the Plan and its affiliated companies as of year-end 2017 is shown below.



Partners Healthcare System, Inc. owns numerous other health care entities that are not shown on the abbreviated organizational chart above.

Neighborhood Health Plan, Inc.

Transactions and Agreements with Subsidiaries and Affiliates

As part of the Partners Affiliation Agreement, Partners has executed a Risk Based Capital Guaranty with the Plan pursuant to which Partners will guarantee that NHP shall have and maintain capital and surplus in the minimum amount equivalent to 300% of the Authorized Control Level RBC, as defined by the Division in 211 CMR 25.10.

All cash and investments of NHP will be managed by the Partners Treasury Office under a Statement of Investment Policy approved by NHP's Board in consultation with the Partners Investment Committee.

On the effective date of the affiliation, NHP established a Community Health Center ("CHC") Grant Program totaling \$6 million per year ("Grant Amount") pursuant to which NHP will make grants to all community health centers that are part of the Massachusetts League of Community Health Centers. NHP will fund the CHC Grant Program each year with the return on the NHP investment portfolio that is in excess of 2.75%. If, in any given year, the excess return is less the Grant Amount, Partners will contribute to NHP the amount of the difference between the excess return and Grant Amount. Commencing in fiscal year 2015, in the event NHP's average operating income for the preceding three (3) fiscal year period is not breakeven or better, NHP may not make any CHC grant without the prior written approval of Partners.

On October 1, 2013 the Company and Partners entered into a Shared Services and Expense Agreement. Partners will provide support services to the Plan in the areas of central administration, finance, human resources, information systems, legal, clinical affairs and real estate. Partners allocates the support services among their various affiliates on a pro rata basis based on each affiliate's percentage of total revenue.

Effective September 1, 1999, the Plan entered into a ten-year agreement with their affiliate, Community Medical Alliance, Inc. to provide certain accounting, management, and other services. The agreement shall be automatically renewed for successive five-year terms unless either party gives notice of nonrenewal at least one hundred eighty days prior to expiration of the current term. CMA pays the Plan an amount equal to their administrative services budget in twelve equal monthly installments.

TERRITORY AND PLAN OF OPERATION

The Plan is licensed to transact business in Massachusetts and is not licensed in any other state.

In 2017 approximately 67% percent of the Plan's total premiums were derived from providing health care coverage to Medicaid beneficiaries through a Managed Care Organization contract with the Commonwealth of Massachusetts Division of Medical Assistance. Commercial accounts represented approximately 22% of the Plan's total business and the remaining 11% was with the Commonwealth Connector.

Neighborhood Health Plan, Inc.

REINSURANCE

The Plan has a medical excess of loss reinsurance contract with coverage for 90% of the Company's ultimate net loss in excess of \$1,000,000 except for higher retentions for specified members. In addition the Company is subject to various aggregated specific deductibles for various lines of business.

Neighborhood Health Plan, Inc.

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, 2017. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital and Surplus As of December 31, 2017

Statement of Revenue and Expenses As of December 31, 2017

Reconciliation of Capital and Surplus For the Three-Year Period Ended December 31, 2017

Neighborhood Health Plan, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2017

	Per Annual Statement
Assets	
Bonds	\$ 25,234,808
Common stocks	198,573,946
Cash, cash equivalents and short-term investments	199,232,814
Subtotals, cash and invested assets	423,041,568
Investment income due and accrued	64,498
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	7,162,077
Accrued retrospective premiums	77,324,104
Reinsurance:	
Amounts recoverable from reinsurers	2,783,944
Electronic data processing equipment and software	3,814,782
Health care and other amounts receivable	48,291,330
Aggregate write-ins for other than invested assets	340,960
Total Assets	<u>\$ 562,823,263</u>
Liabilities	
Claims unpaid	\$ 194,608,628
Unpaid claims adjustment expenses	3,038,806
Premiums received in advance	8,706,835
General expenses due or accrued	14,123,308
Amounts withheld or retained for the account of others	285,417
Amounts due to parents, subsidiaries, and affiliates	4,465,042
Aggregate write-ins for other liabilities	469,559
Total Liabilities	<u>225,697,595</u>
Aggregate write-ins for special surplus funds	8,124,053
Gross paid-in and contributed surplus	395,614,595
Unassigned funds (surplus)	(66,612,980)
Total capital and surplus	<u>337,125,668</u>
Total Liabilities, Capital, and Surplus	<u>\$ 562,823,263</u>

Neighborhood Health Plan, Inc:
Statement of Revenue and Expenses
As of December 31, 2017

	Per Annual Statement
Net premium income	\$2,421,956,140
Hospital and Medical:	
Hospital/medical benefits	1,484,256,918
Other professional services	235,918,927
Emergency room and out-of-area	66,331,017
Prescription drugs	434,469,144
Aggregate write-in for other hospital and medical	108,422
Subtotal	<u>2,221,084,428</u>
Less:	
Net reinsurance recoverables	<u>3,920,013</u>
Total hospital and medical	2,217,164,415
Claims adjustment expenses, including	
\$46,538,359 cost containment expenses	56,551,953
General administrative expenses	95,062,957
Increase in reserves for life and	
accident and health contracts	<u>(45,304,104)</u>
Total underwriting deductions	2,323,475,221
Net underwriting gain	<u>98,480,919</u>
Net investment income earned	3,658,669
Net realized capital gains	<u>1,694,448</u>
Net investment gains	<u>5,353,117</u>
Aggregate write-in for other income or expenses:	
Adjustment to reinsurance recoverable reserve	683,197
Other Revenue	<u>12</u>
Total other income or (expenses)	<u>683,209</u>
Net income after capital gains tax and	
before all other federal and foreign income taxes	104,517,245
Federal and foreign income taxes incurred	<u>0</u>
Net Income	<u><u>\$ 104,517,245</u></u>

Neighborhood Health Plan, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and surplus as of December 31, prior year	\$ 192,398,691	\$ 186,925,962	\$ 128,717,496
Net income (loss)	104,517,245	(130,901,469)	(25,493,901)
Change in net unrealized capital gains (losses)	14,762,737	12,668,237	(12,794,997)
Change in non-admitted assets	646,994	7,805,962	(902,636)
Surplus adjustments: Paid in	<u>24,800,000</u>	<u>115,900,000</u>	<u>97,400,000</u>
Net change capital and surplus for the year	<u>144,726,976</u>	<u>5,472,729</u>	<u>58,208,466</u>
Capital and surplus as of December 31, current year	<u>\$ 337,125,668</u>	<u>\$ 192,398,691</u>	<u>\$ 186,925,962</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 their claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled.

Risk and Regulatory Consulting, LLC ("RRC") prepared independent estimates of the unpaid claim liabilities as of December 31, 2017 and prior periods. For December 31, 2017, completion factors for the projection of ultimate claims are developed using historical payment patterns and actuarial judgment. The actuarial estimates as determined by RRC, indicate that the Company's unpaid claim liabilities are reasonable as of December 31, 2017.

SUBSEQUENT EVENTS

In 2017, the Commonwealth of Massachusetts announced a restructuring of the MassHealth program which would terminate certain of the existing Managed Care Organization ("MCO") contracts and execute new Accountable Care Organization ("ACO") contracts with networks of health care providers and insurers. As of March 1, 2018, NHP's MCO contract covering approximately 230,000 MassHealth members terminated, and NHP entered into an ACO contract covering approximately 30,000 MassHealth members.

On October 3, 2018 the Division approved the Company's request for a \$100 million extraordinary distribution to be paid to Partners in installments with the final installment to be paid on March 31, 2019 provided the Company's capital and surplus remains above 300% of the Authorized Control Level RBC.

Effective January 1, 2019 the Plan changed their name to allways Health Partners, Inc. The new brand signals a readiness to challenge the health care industry status quo with innovative products and services for the commercial marketplace.

SUMMARY OF RECOMMENDATIONS

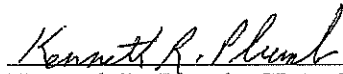
The Company was unable to reconcile the paid loss detail claim data used by the actuaries to the 2017 paid loss amounts in the Annual Statement. It is recommended the Company develop stronger reconciling controls for the paid loss data.

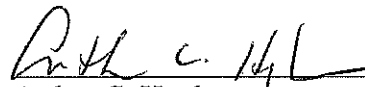
As of December 31, 2017, the Board consisted of 10 elected members and the President who serves *ex officio*. The Company's bylaws state the Board shall consist of 12 members and an *ex officio* member. It is recommended the Board elect the correct number of Directors or amend the bylaws to reflect the Company's current Board membership. John Higham is incorrectly listed as a Director on the Jurat page of the 2017 Annual Statement. John Higham was elected as the corporate Secretary and no evidence was found in the annual member meeting minutes regarding his election as a director.

It is recommended the Board of Directors or investment committee approve all investment transactions in accordance with M.G.L. Chapter 175 Section 64.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Plan during the examination.


Kenneth R. Plumb, CPA, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance


Arthur C. Hughes
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance