



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

***REPORT OF EXAMINATION OF THE***  
**TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.**

**Watertown, Massachusetts**

**As of December 31, 2017**

**NAIC GROUP CODE 4742**

**NAIC COMPANY CODE 95688**

**EMPLOYER ID NUMBER 04-2674079**

TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

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

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 28, 2019

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

**TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.**

at its home office located at 705 Mount Auburn Street, Watertown, MA, 02472-1508. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Tufts Associated Health Maintenance Organization, Inc. ("TAHMO" or "Company") 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 Ernst & Young ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2015 through 2017. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of Baker Tilly Virchow Krause, LLP ("Baker Tilly") 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. Lewis & Ellis, Inc. ("LEI") was contracted by Baker Tilly to participate along with Baker Tilly actuaries in performing the review of the actuarially determined loss and loss adjustment expense reserves, as well as other significant actuarial estimates as of December 31, 2017.

Baker Tilly's Information Technology Advisory Services personnel were engaged to review the Company's Information Technology environment to assist in determining the level of reliance to be placed on the information generated by the data processing systems.

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

There were no significant findings identified during the examination.

### **COMPANY HISTORY**

TAHMO was incorporated on November 2, 1979 as a Massachusetts not-for-profit corporation, established for the purpose of arranging for the delivery of comprehensive health care services, on a prepaid basis, to subscribing individuals and groups. The Company was licensed as a Health Maintenance Organization ("HMO") by the Massachusetts Division of Insurance on October 26, 1981 and commenced business as of this same date.

On September 28, 2016, a newly formed holding company, Tufts Health Plan, Inc. ("THPI"), was formed as a not for profit Massachusetts organization. Effective October 1, 2017, THPI assumed control of TAHMO. In conjunction with THPI becoming the direct parent of TAHMO, the Company distributed its ownership of Tufts Health Public Plans, Inc. ("THPP"); resulting in TAHMO and THPP being direct wholly owned subsidiaries of the ultimate parent of the holding company, THPI.

The Company is licensed in Massachusetts and Rhode Island, and the Company writes in all of Rhode Island and all of Massachusetts, with the exception of Dukes and Nantucket counties.

The Company's primary product is an HMO product, but the Company writes several lines of business: Comprehensive (Hospital & Medical), Title XVIII Medicare, Title XIX Medicaid (MassHealth), and Other Health.

TAHMO owns 92% of Integra Partners Holdings, Inc., 51% of CarePartners of Connecticut Holdings LLC ("CarePartners"), and 100% of Tufts Associated Health Plans, Inc. ("TAHP"). CarePartners owns 100% of CarePartners of Connecticut, Inc. ("CPC"). TAHP has four wholly-owned subsidiaries, Tufts Insurance Company ("TICO"), Tufts Benefit Administrators ("TBA"), Total Health Plans, Inc. ("THP"), and TAHP Brokerage Corporation. TAHP also has a 51% ownership interest in Tufts Health Freedom Plans, Inc., which owns 100% of the common stock of Tufts Health Freedom Insurance Company ("Freedom").

### **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 Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at the meetings of the Board.

#### **Articles of Organization and Bylaws**

The articles of organization and bylaws of the Company were reviewed. The bylaws were amended in October 2017 to reflect the organization restructuring.

## Tufts Associated Health Maintenance Organization, Inc.

### Board of Directors

In accordance with the bylaws, the affairs of the Company shall be managed by the Board who shall have and may exercise all the powers of the Company. The Board shall consist of not less than seven and not more than fourteen Directors, and the majority of such Directors shall be "independent." The Board shall include not less than one and not more than two Directors who serve as management of the Corporation (each such Director, a "Management Director"), one of whom shall be the Chief Executive Officer of the Corporation ("CEO") serving ex officio; provided that, if there is more than one Management Director, the Management Directors will be limited to one vote and the Management Director entitled to vote will be determined by the CEO; provided further that, if the CEO has been designated as the Chair of the Board (hereinafter, the "Chair"), the Board shall designate a Director who is not a Management Director to act as "Lead Director" and serve in place of the Chair in each instance where it would be inappropriate for a Management Director to be acting as the Chair.

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

<u>Director</u>	<u>Title</u>
Robert Spellman, Chair	Retired, Chief Financial Officer, The Yankee Candle Company
Eileen Auen	Consultant
Thomas Croswell	President & Chief Executive Officer, TAHMO
Peter Drotch	Retired, Pricewaterhouse Coopers, LLP
Michael McColgan	Retired, Pricewaterhouse Coopers, LLP
Thomas O'Neill, III	Chief Executive Officer, O'Neill & Associates
Bertram Scott	Sr. VP of Population Health, Novant Health, Inc.
Irina Simmons	Retired, Chief Risk Officer, EMC Corporation
Mary Anna Sullivan, M.D.	Retired, Chief Quality and Safety Officer, Lahey Clinic
Frank Torti, M.D.	Physician, University of CT Health
Greg Tranter	Retired, Exec. VP, CIO & COO, The Hannover Insurance Group
Jeff Weiss	President, Lesley University
Susan Windham-Bannister	President & CEO, Biomedical Growth Strategies, LLC

### Officers

The officers shall be a president, a treasurer and a clerk, each of whom shall be elected by the Board; the clerk shall be a resident of the Commonwealth of Massachusetts unless the Corporation has appointed a resident agent to receive service and process. The Board may appoint such other officers as they deem necessary who shall have such authority and shall perform such duties as from time to time may be prescribed by the Board. Any person may simultaneously hold more than one office of the Corporation and may simultaneously be a Board officer and an officer of the Corporation.

Tufts Associated Health Maintenance Organization, Inc.

The officers of the Company as of December 31, 2017 were as follows:

<u>Officer</u>	<u>Title</u>
Thomas A. Croswell	President and Chief Executive Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Roland Price	Treasurer and Vice President
Mary O'Toole Mahoney, Esq.	Clerk, Senior Vice President, Chief Legal Officer
Patricia Blake	President, Senior Products
Patricia Trebino	Senior Vice President of Operations and Chief Information Officer
Paul Kasuba, M.D.	Senior Vice President
Tracey Carter	Senior Vice President and Chief Actuary
Marc Spooner	Executive Vice President, Commercial and Government Products
Derek Abruzzese	Senior Vice President
Kristin Lewis	Senior Vice President
Marc Backon	President, Commercial Products
Maurice Hebert	Senior Vice President and Chief Accounting Officer
Lydia Greene	Senior Vice President
Susan A. Kee, Esq.	Assistant Clerk
Thomas O'Neill, III	Vice Chairman
Susan Windham Bannister	Vice Chairman

Committees of the Board of Directors

Per the bylaws, THPI, as sole member of the Company, shall provide an Audit Committee and may provide for other committees. The Board may delegate to any such committee the power to carry out the responsibilities contained in the charter of each committee. The Board may determine the manner of conducting committee business of such committees. The designation of any such committees and the delegation of any authority thereto shall not operate to relieve the Board from any responsibility imposed upon it by law. The Board may provide for additional committees, each such additional committee to be elected from and by the Board, and the Board may delegate to any such committee or committees some or all of their powers, except, however, the power: to change the principal office of the Corporation; to elect officers and to fill vacancies in any such offices; to change, to remove officers or directors from office, or to take an action requiring a vote of three-fourths (3/4) of the Directors.

The Audit and Compliance Committee shall be comprised of at least three directors, each of whom are independent of management and the Company. The Committee shall provide assistance to the Board in fulfilling their oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, and the annual independent audit of the Company's financial statements. The Committee shall also oversee the Chief Compliance & Ethics Officer with respect to the implementation, operation and effectiveness of the Corporate Compliance Program as established

## Tufts Associated Health Maintenance Organization, Inc.

and operated by management and the Board on behalf of THPI, on behalf of itself, and its wholly owned subsidiaries and affiliates.

The Finance Committee will assist the Board in fulfilling its responsibility related to policies, practices, and strategies that relate to the financial affairs of THPI, and its subsidiaries and affiliates. Significant duties and responsibilities include oversight of long-term financial plans, annual business plan, assessment of insurance programs, and review of investment strategy and policy recommendations, if any.

The Compensation Committee shall consist solely of independent members of the Board of THPI and shall be responsible to the full THPI Board for establishing and maintaining a competitive total remuneration program in order to attract, retain and motivate those executives critical to the successful management and oversight of THPI in carrying out its stated mission. The Committee is responsible for the total remuneration program impacting the C-Suite of executives and those listed above as Officers.

The Care Management Committee shall review THPI's care management and quality strategies, provide input and advice to management, and periodically report to THPI Board of Directors regarding its assessment of those activities. The Committee has responsibility for and serves as the Care Management Committee for its subsidiaries and affiliates, including TAHMO, THPP, and TBA.

The Sales & Marketing Committee will provide oversight and advice to the Sales and Marketing functions of TAHMO. Membership shall consist of such TAHMO Directors as are proposed by the Chairman of the Board or "Lead Director" and elected by the TAHMO Board. Goals and objectives of this Committee include review of sales and marketing strategies for all products and services, assess the execution of the strategies and plans, and periodically report to the TAHMO Board of Directors regarding its assessment.

The Technology Committee oversees the technology of THPI and its subsidiaries and affiliates; periodically reporting to the THPI Board of Directors regarding its assessment of the quality, performance, and compatibility of such technology with the strategic direction of THPI and its subsidiaries and affiliates. Membership includes THPI Directors as are proposed by the Chairman of the Board or "Lead Director" and elected by the THPI Board.

The Governance Committee advises the THPI Board on effective corporate governance policies and procedures and shall nominate candidates, pursuant to guidelines established, from time to time to serve as elected Directors of the THPI Board or any of its subsidiary or affiliate Boards. The five person compensation of this Committee shall consist of the Chairman of the THPI Board or "Lead Director", three At-Large Directors or Member Directors, and the Chief Executive Officer.

### Affiliated Companies

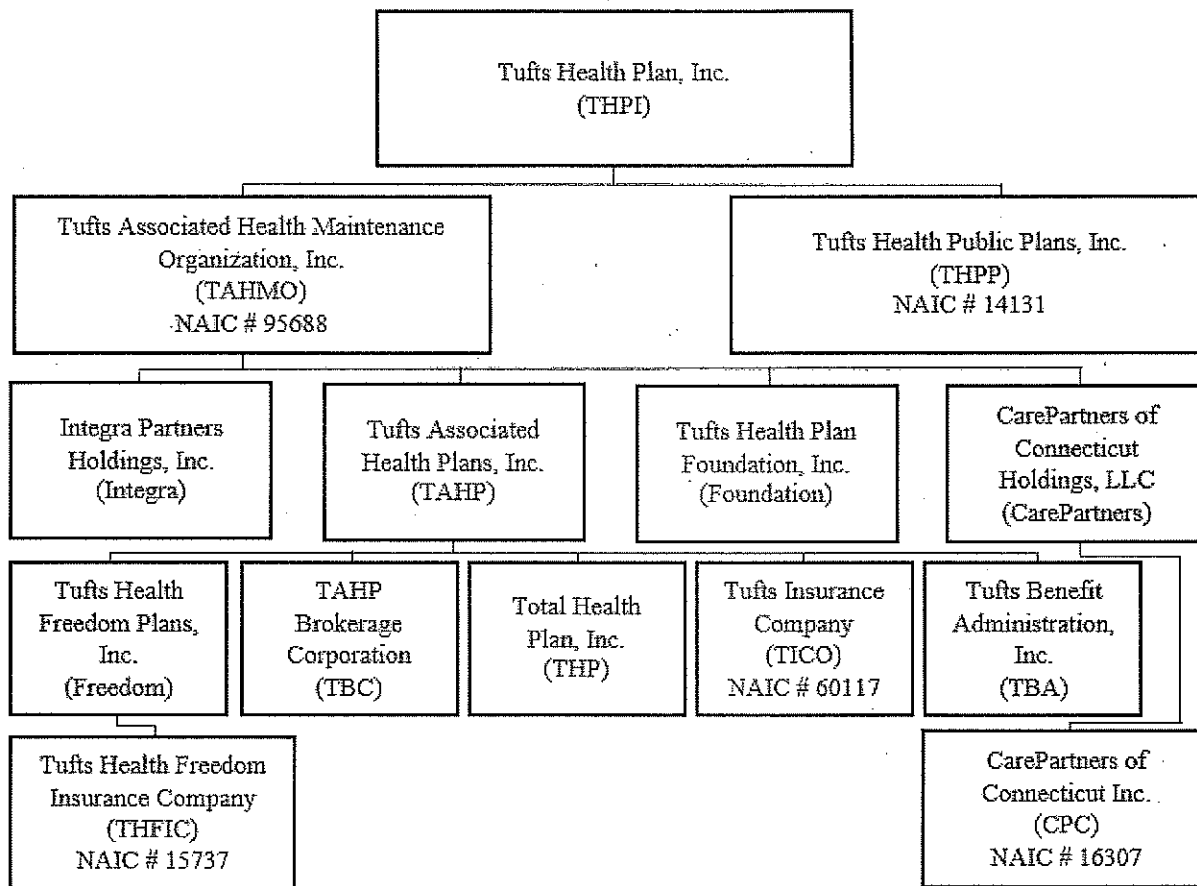
As stated in the Insurance Holding Company System Form B, Form C and Form F as filed with the Division, the Company is a member of a holding company system and is subject to the



## Tufts Associated Health Maintenance Organization, Inc.

registration requirements of Massachusetts General Law Chapter 175, Section 206C, Chapter 176G, Section 28 and Regulation 211 CMR 7.00. TAHMO used to be the “ultimate controlling person” of the holding company system, however, with restructuring in October 2017, THPI was formed and became the ultimate controlling entity in the holding company structure and TAHMO is its subsidiary.

### Organization Chart



### Transactions and Agreements with Subsidiaries and Affiliates

The following document the Company’s transactions and agreements with subsidiaries and affiliates executed and completed during the examination period.

#### *Inter-affiliate Agreement*

Under the terms of the agreement, effective with respect to TAHMO and THP, January 1, 1995; with respect to Tufts Health Plan of New England (“TNE”), June 15, 1995; with respect to TBA, January 1, 1996; and with respect to TICO as of the date of enrollment of its first member, the parties agree to be Network Affiliates allowing each entities covered members access to the Participating Providers of each affiliate. Through this arrangement, the parties to the agreement shall include in its provider contracts provisions which require the provider to provide covered

## Tufts Associated Health Maintenance Organization, Inc.

services to Members of the other Tufts Companies. These services should be provided consistently with that of services provided to a Member of the Network Affiliate executing the contract with the provider. Each Tufts Health Plan Company shall be responsible for paying the applicable participating provider for the covered service, including out-of-plan referral rendered for such services.

### *Intercompany Agreement*

This agreement is executed, effective June 30, 2008, by and among TAHMO, TAHP, THP, TBA, TICO, and Tufts Health Plan Foundation, Inc. ("Foundation") to provide for the allocation of shared expenses of the related parties. Payment for expenses incurred by one Tufts entity on behalf of another, and/or for transactions between one Tufts entity and another, shall be due and payable within ninety days following the end of the month in which the expense was incurred or the transaction occurred. This agreement was subsequently amended, on November 1, 2011 to include THPP as a party to the agreement.

### *Management Agreement*

Effective January 1, 2009, TAHMO and TAHP executed a Management Agreement in which TAHP agrees to provide TAHMO management, administrative and clerical services suitable for the operations of TAHMO. Services provided by TAHP under the agreement include, though are not limited to: financial management, insurance, enrollment, claims processing, premium collection, legal and regulatory, compliance, information systems, and human resources. TAHMO pays a management fee consisting of a mark-up of total costs determined each year based on a defined fee allocation methodology. The agreement was amended, effective January 1, 2009, to include Exhibit C – Medicare Advantage and Medicare Part D Contracting Requirements provisions to the agreement. The total management fees for 2016 and 2017 were \$135,648,000 and \$155,559,000, respectively.

### *Administrative Services Agreement - TBA*

This agreement, effective January 7, 1997, was executed between TAHMO and TBA establishing TBA as the Administrator responsible for administrative services to self-insured employers, insurers and other entities legally responsible for payment of health benefits for individuals entitled to such health benefits. As the Administrator, TBA shall provide services related to this operation to include, but not limited to: enrollment, premiums, claims, underwriting, member materials, grievances, marketing, accounting, government regulations, and record keeping / reporting. TAHMO's responsibilities under the agreement consist of funding all claims for members, maintain policies with each employer, and pay all taxes and other charges that may be applicable. The agreement was subsequently amended, on January 1, 2006, in which TAHMO will pay as compensation all direct administrative and medical costs incurred by TBA, with a mark-up, plus the management fee allocated to TBA. Administrative fees paid to TBA were \$856,000 and \$677,000 for 2016 and 2017, respectively.

## Tufts Associated Health Maintenance Organization, Inc.

### *Administrative Services Agreement - THP*

Effective October 1, 1990, TAHMO and THP entered an agreement establishing THP as the Administrator, contracting with providers of medical care to create, and now market and manage a preferred provider arrangement ("PPA") called Total Health Plan, offered by TAHMO. Services provided by THP to self-insured employers, insurers and other entities legally responsible for payment of health benefits for individuals entitled to such health benefits and seeking a specific insured PPA to offer employers include: enrollment, premiums, claims, record keeping / reporting, and member satisfaction. TAHMO's responsibilities under the agreement consist of funding all claims for members, maintain policies with each employer, and pay all taxes and other charges that may be applicable. As compensation for these services TAHMO shall pay THP the Group Policy Base Commission plus the Group Policy Contingent Commission consisting of; 50% of the PPA Product Surplus or Deficit but never more than 5% of the Gross Premium for a calendar year. This agreement was subsequently amended, effective January 1, 2006, to update the Member Satisfaction Process service, as well as establish a new administrative fee consisting of direct administrative and medical costs incurred by THP, with a mark-up, plus the management fee allocated to the administrator. Administrative fees paid to THP were \$1,467,000 and \$677,000 for 2016 and 2017, respectively.

### *Administrative Services Agreement – TICO*

This agreement, effective February 26, 2009, established TAHMO as the Administrator of TICO's Medicare Supplement ("Med Supp") and Medicare Prescription Drug Plan ("PDP"). As Administrator, TAHMO's responsibilities include, though are not limited to: enrollment, premiums, claims, underwriting, member materials, marketing, accounting, compliance, and record keeping / reporting. TICO is responsible for funding all claims and maintain in full force and effect a policy with each employer and/or individual. In exchange for these services, TICO will pay compensation in the form of an administrative fee that will be determined each year based on a defined allocation methodology that is consistent with the U.S. Transfer Pricing Regulations. The agreement was subsequently amended, effective May 23, 2014, to allow TAHMO to invest premiums collected on behalf of TICO consistent with TICO's investment strategy. Administrative fees paid to TAHMO were \$7,610,000 and \$7,851,000 for 2016 and 2017, respectively.

### *Employee Lease Agreement*

This agreement, effective January 2010, between TAHMO and Tufts Health Care Institute ("THCI") provides that TAHMO shall employ or engage and make available, on a non-exclusive basis, sufficient employees as may be reasonably necessary to fulfill THCI's business plan consistent with THCI's budget. These employees are supervised by the THCI President, receive benefits consistent with TAHMO employees, and are subject to THCI's approval. In addition, TAHMO provides administrative services consisting of bookkeeping, accounting, and data processing in connection with the employees. THCI will reimburse TAHMO for compensation costs of employees, benefit costs of employees, and any other taxes, in addition to a \$2,000 annual fee. This annual fee will be reviewed and updated from time to time, as needed.

## Tufts Associated Health Maintenance Organization, Inc.

THCI is organized exclusively for charitable, educational, and scientific purposes consisting of conducting and supporting activities for the purpose of improving the quality, efficiency, effectiveness, and accessibility of health care services. Specific initiatives of THCI include integrating managed care principles and practices into physician education and training and providing education and related resources to health care professionals and the general public to promote effective medical practice in a managed care environment.

### *Federal Tax Allocation Agreement*

This agreement, effective September 1, 2008, was entered into by TAHMO, TAHM Brokerage Corporation, THP, TICO, and TBA whereas the group has elected to file a consolidated Federal income tax return. The consolidated Federal income tax liability of the group shall be allocated to each Member in accordance with Treasury Regulations, allowing for certain members to have reduced liability while others may have an increased liability. Payments of each Member's portion of the Federal tax liability will be paid to TAHMO, with additional payments being made and payments made from TAHMO to Members with reduced liabilities. TAHMO has the ability to collect from each Member their portion of estimated tax payments. Adjustments to the Federal tax liability are allocated to the Members and will be paid to or received by TAHMO upon notification.

### *Capital Contributions / Dividends*

On October 1, 2017 THPI assumed control of TAHMO, as described previously, and in conjunction TAHMO distributed ownership of THPP to THPI. TAHMO issued a dividend to THPI of \$55,000,000 in December 2017. Prior dividends during the examination period include a \$10,000,000 dividend issued by THPP to TAHMO in April 2015. Dividends paid during the examination period were approved by the Division.

TAHMO has provided a parental guarantee that if TICO's capital and surplus fall below defined regulatory levels it will contribute capital to bring TICO to within regulatory compliance.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed and writing business in Massachusetts and Rhode Island, with the largest numbers of insurance risks written in Massachusetts. The Company reported \$2.5 billion of 2017 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.

**REINSURANCE**

The Company is not a party to any assumed or ceded reinsurance agreements and did not purchase stop-loss reinsurance. Reinsurance recoverable for paid losses in the amount of \$881,944 were reported as of December 31, 2017 from the U.S. Department of Health and Human Services as a result of mandatory participation in the transitional State-based reinsurance program established under the Patient Protection and Affordable Care Act.

**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 Income for the Year Ended December 31, 2017

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2017

Tufts Associated Health Maintenance Organization, Inc.

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

<b>Assets</b>	Annual Statement
Bonds	\$ 263,862,145
Common stocks	490,832,066
Real Estate	101,513,954
Cash, cash equivalents and short-term investments	52,761,885
Other Invested Assets	75,318,422
Subtotals, cash and invested assets	<u>984,288,472</u>
Investment income due and accrued	1,473,103
Premiums and considerations:	
Uncollected premiums and agents' balances	7,903,940
Reinsurance:	
Amounts recoverable from reinsurers	881,944
Electronic data processing equipment and software	25,141,824
Receivables from parent, subsidiaries and affiliates	12,047,848
Health care and other amounts receivable	49,014,714
Aggregate write-ins for other than invested assets	6,063,000
Total assets	<u><u>\$ 1,086,814,845</u></u>
<b>Liabilities</b>	
Claims unpaid	\$ 231,274,701
Accrued medical incentive pool and bonus amounts	40,989,188
Unpaid claims adjustment expenses	2,958,535
Aggregate health policy reserves	7,479,340
Premiums received in advance	14,087,512
General expenses due or accrued	48,715,540
Borrowed money	75,791,671
Amounts due to parent, subsidiaries and affiliates	13,545,669
Liability for amounts held under uninsured plans	6,208,931
Aggregate write-ins for other liabilities	1,477,937
Total liabilities	<u><u>\$ 442,529,024</u></u>
Aggregate write-ins for special surplus funds	27,080,000
Unassigned funds (surplus)	617,206,474
Total capital and surplus	<u><u>\$ 644,286,474</u></u>
Total liabilities capital, and surplus	<u><u>\$ 1,086,815,498</u></u>

Tufts Associated Health Maintenance Organization, Inc.

Statement of Income  
For the Year Ended December 31, 2017

	Per Annual Statement
<b>Member Months</b>	<u>3,524,368</u>
Net premium income	\$ 2,555,327,303
<b>Deductions:</b>	
Hospital/medical benefits	1,852,846,727
Other professional services	40,405,783
Emergency room and out-of-area	15,004,981
Prescription drugs	240,089,883
Aggregate write-ins for other hospital and medical	18,488,270
Incentive pool, withhold adjustment and bonus amounts	32,007,862
Subtotal	<u>\$ 2,198,843,506</u>
Net reinsurance recoveries	-
Total hospital and medical	<u>\$ 2,198,843,506</u>
Claims adjustment expenses	70,097,949
General administrative expenses	200,393,417
Total underwriting deductions	<u>\$ 2,469,334,872</u>
Net underwriting gain	85,992,431
Net investment income earned	14,601,972
Net realized capital gains less capital gains tax	<u>(16,182,909)</u>
Net investment gain	(1,580,937)
Aggregate write-ins for other income or expenses	557,299
Net income, after capital gains tax and before all other federal income taxes	\$ 84,968,793
Federal and foreign income taxes incurred	-
Net income	<u><u>\$ 84,968,793</u></u>



Tufts Associated Health Maintenance Organization, Inc.

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

	2017	2016	2015
Capital and surplus, December 31 prior year	\$ 786,487,439	\$ 745,442,368	\$ 765,026,261
Net income/loss	84,968,793	(3,223,449)	18,961,162
Change in net unrealized capital gains	(13,493,889)	(30,068,731)	8,020,225
Change in nonadmitted assets	70,478,494	74,337,374	(46,565,086)
Dividends to stockholders	(284,154,365)		
Aggregate write-ins for gains or (losses) in surplus	2	(123)	(194)
Net change in capital and surplus for the year	(142,200,965)	41,045,071	(19,583,893)
Capital and surplus, December 31 current year	\$ 644,286,474	\$ 786,487,439	\$ 745,442,368

**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.

Note that a small variance, \$653, was identified between the total assets and total liabilities, capital, and surplus within the Balance Sheet filed by the Company with the Division for the year ended December 31, 2017. This variance is reflected in the financial statements included within this report.

**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.

The Actuarial Specialist engaged by the Division prepared independent estimates of the unpaid claim liabilities ("UCL") as of December 31, 2017 and prior periods. For December 31, 2017, 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 engaged Actuarial Specialists, indicate that TAHMO's UCL are reasonable as of December 31, 2017.

On January 1, 2015, TAHMO, became subject to an annual fee under section 9010 of the federal ACA. This annual fee was allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. In December 2015, the Federal Government passed a budget bill imposing a one-year moratorium on the collection of the annual fee for 2017. In April 2016, the NAIC adopted Interpretation 16-01: *ACA Section 9010 Assessment 2017 Moratorium*, to clarify that a reporting entity will need to accrue a liability on January 1, 2016 for the fee to be paid in September 2016, but that the monthly segregation of surplus and the liability recognition on January 1, 2017 will not be required. TAHMO recorded a special surplus amount of \$27,080,000 related to the ACA Health Insurer Fee within the 2017 Annual Statements.

As of December 31, 2016, the Company has written health insurance subject to ACA assessment, and expects to conduct health insurance business in 2017. The assessment is expected to have no impact on the Company's risk based capital ("RBC") due to the one-year moratorium on the collection of the annual fee for 2017 noted above.

The Company's assumptions and methodologies used for the premium deficiency reserve ("PDR") are accurate and appropriate. The computations appear to be performed correctly, and the selected estimates appear reasonable. The Company maintains adequate PDR.

### **SUBSEQUENT EVENTS**

On January 1, 2018, TAHMO will be subject to an annual fee under Section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the amount of the Insurance Company's net premium written during the preceding calendar year to the amount of health insurance for any U.S. health risk that was written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1<sup>st</sup> of the year the fee is due. As of December 31, 2017, the Company has written health insurance subject to the ACA assessment and expects to conduct health insurance business in 2018, and estimates its portion of the annual health insurance industry fee to be payable on September 30, 2018 to be \$27,080,000. This amount is reflected in special surplus as of December 31, 2017. TAHMO paid their portion of the annual health insurance industry fee on September 25, 2018 in the amount of \$24,311,618. The Company disclosed within the 2018 Annual Statements, Note 22, that the ACA Health Insurer Fee was suspended for the 2019 calendar year, so no provision is being made in surplus for the upcoming year.

Effective January 10, 2018, TAHMO and TBA entered into an Administrative Services Agreement establishing TAHMO as the service provider arranging for the delivery of comprehensive health care services on a prepaid basis to TBA's subscribed individuals and groups of the self-insured employers, insurers, and other entities legally responsible for payment of the health benefits of these individuals. TAHMO's responsibilities include enrollment, invoicing, claims processing, product management and business planning, sales, operations, and marketing. TBA will pay TAHMO consideration in accordance with a declined allocation methodology that is consistent with the U.S. Transfer Pricing Regulations under Section 482 of the Code and ensure effective and full force administrative services agreements with each employer. This agreement may be terminated by either party following the first anniversary date upon sixty days written notice or upon either party's cessation of the business, bankruptcy, receivership, failure to comply with state licensing, failure to comply with provisions of the agreement, or in the case of TBA failure to pay amounts due to TAHMO pursuant to the agreement. This agreement was approved by the Division January 10, 2018.

Executed June 14, 2018, TAHMO and CarePartners of Connecticut ("CarePartners") entered into a Management and Administrative Services Agreement establishing TAHMO as the service provider for the Medicare Advantage health insurance plans underwritten by CarePartners. In addition to general responsibilities, TAHMO provides operational services including member and provider services, claims, pharmacy management, quality services, precertification operations, membership accounting, member enrollment, member materials, premium billing, business implementation, provider management as well as services related to information systems, business functions, care management and clinical services, product management, network contracting, risk adjustment, sales and marketing, actuarial, legal and any service considered necessary to operate

a Medicare Advantage health plan. CarePartners is liable for the payment of all benefits, taxes and obligations required of CarePartners. Further, CarePartners shall fund all claims for members enrolled and pay TAHMO consideration for services provided in the amount of \$52.63 per Medicare Advantage member per month; to be negotiated in good faith following the initial term, ended December 31, 2020. The agreement may terminate upon dissolution of one of the parties or by decision of the Board of CarePartners of Connecticut Holdings, LLC to cease issuing policies. Further, either party can terminate the agreement upon sixty days prior written notice following either party's cessation of the business, bankruptcy, receivership, failure to comply with state licensing, failure to comply with provisions of the agreement, or in the case of CarePartners to fund claims or failure to pay amounts due to TAHMO pursuant to the agreement. This agreement was approved by the Division June 14, 2018.

Upon approval by the Division, which occurred January 10, 2018, an Administrative Services Agreement was entered by TAHMO, THPP, THP, TBA, THFIC and Integra Partners, LLC ("Integra") in which Integra will provide its network of Durable Medical Equipment, Prosthetic and Orthotic ("DMEPOS") providers and arrange for the provision of DMEPOS services for TAHMO, THPP, THP, TBA, and THFIC members. The agreement provides for the provision of covered services for members, compensated on a fee for services basis and the provision of a network of participating providers, network management and delegated services, compensated on a per member per month basis. Integra is required to build and maintain a network of participating DMEPOS providers that meets all required credentialing standards and supplies the full spectrum of DMEPOS products and services to members. This includes but is not limited to a network recruitment function, network management, call center and claims operations to facilitate transactions for the network of providers, finance and accounting functions, credentialing and quality oversight. Either party may terminate this Agreement for cause at any time upon a material breach of this Agreement by the other party; provided that the party which seeks to terminate shall give the other party written notice one hundred eighty days prior to the effective date of such termination, which notice shall contain the specific details of the alleged material breach and provided that the alleged breaching party shall have an opportunity to cure the alleged material breach within sixty days.

TAHMO made capital contributions to its subsidiary, TAHP, in 2018 in the amount of \$46,000,000. Further, TAHMI is a 51% corporate member of CarePartners of Connecticut Holdings, LLC and made a capital contribution in the amount of \$7,548,000 during 2018. TAHMO also declared a capital contribution in the amount of \$7,650,000 to CarePartners of Connecticut Holdings, LLC which was paid on January 15, 2019. Finally, in 2019 TAHMO made payments of \$11,400,000 to the non-controlling interest shareholders of Integra to purchase the remaining 8% of ownership of the Company. As a result, Integra becomes a wholly owned subsidiary of the Company.

#### **SUMMARY OF RECOMMENDATIONS**

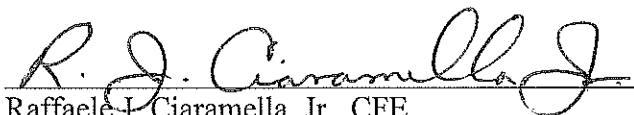
There were no significant recommendations noted in this report.

**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 Baker Tilly and LEI and the following Division examiner who participated in this examination hereby is acknowledged:

Quangping Wei Examiner III

A handwritten signature in cursive script, reading "R. J. Ciaramella, Jr.", written over a horizontal line.

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