



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

REPORT OF EXAMINATION OF THE
TUFTS HEALTH PUBLIC PLANS, INC.

Watertown, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 4742

NAIC COMPANY CODE 14131

EMPLOYER ID NUMBER 80-0721489

TUFTS HEALTH PUBLIC PLANS, INC.

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COMMONWEALTH OF MASSACHUSETTS
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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 HEALTH PUBLIC PLANS, 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 Health Public Plans, Inc. ("THPP" 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 were 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

THPP, formerly known as Network Health, LLC has been licensed as a Massachusetts domestic health maintenance organization (“HMO”) since November 2011. Network Health, LLC was formed in May 2011 by Tufts Associated Health Maintenance Organization, Inc. (“TAHMO”) for the purpose of purchasing the assets and liabilities of Network Health, Inc. from Cambridge Health Alliance.

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 the formation of THPI, TAHMO distributed its ownership of the Company to THPI; resulting in TAHMO and THPP becoming direct wholly owned subsidiaries of the ultimate parent of the holding company, THPI.

THPP is contracted by the Massachusetts Executive Office of Health and Human Services (“EOHHS”) and the Centers for Medicare and Medicaid (“CMS”) to provide coverage for the Massachusetts Medicare, Medicaid and the State’s Children’s Health Insurance programs population, as well as the Commonwealth Health Insurance Connector Authority to provide Qualified Health Plans. As of August 2017, THPP entered a contract with the Rhode Island Executive Office of Health and Human Services to provide Medicaid Managed Care Services.

The Comprehensive line of business is comprised of the coverage offered to individuals and small groups under the Patient Protection and Affordable Care Act. Medicaid include Medicaid Managed Care, Mass Health, and OneCare Plan; which are demonstration program initiative integrated Mass Health and CMS to integrate delivery to dual eligible, Medicare and Medicaid eligible members. Rhode Island Medicaid Managed Care products consist of Rite Care, Medicaid Expansion and Rhody Health Partners.

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. A former subsidiary of TAHMO, and as a result of the aforementioned restructuring, now a sister subsidiary with TAHMO since October 2017, of THPI, the holding company organization; the standing committees formed by THPI provides oversight to THPP. Activities of the Committees were ratified at meetings of the Board.

Tufts Health Public Plans, Inc.

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.

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 two and not more than five Directors and the Chief Executive Officer shall serve, ex officio, as the Chair and shall preside at all meetings of the Board.

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

<u>Director</u>	<u>Title</u>
Thomas A. Croswell	President and Chief Executive Officer
Umesh Kurpad	Chief Financial Officer
Mary O'Toole Mahoney, Esq.	Senior Vice President, Chief Legal Officer

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.

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

<u>Officer</u>	<u>Title</u>
Thomas A. Croswell	Chief Executive Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Roland Price	Treasurer
Mary O'Toole Mahoney, Esq.	Clerk, Senior Vice President, Chief Legal Officer
Marc Spooner	Exec. Vice President, Commercial and Gov't Products
Susan A. Kee, Esq.	Assistant Clerk

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

Tufts Health Public Plans, Inc.

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 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,

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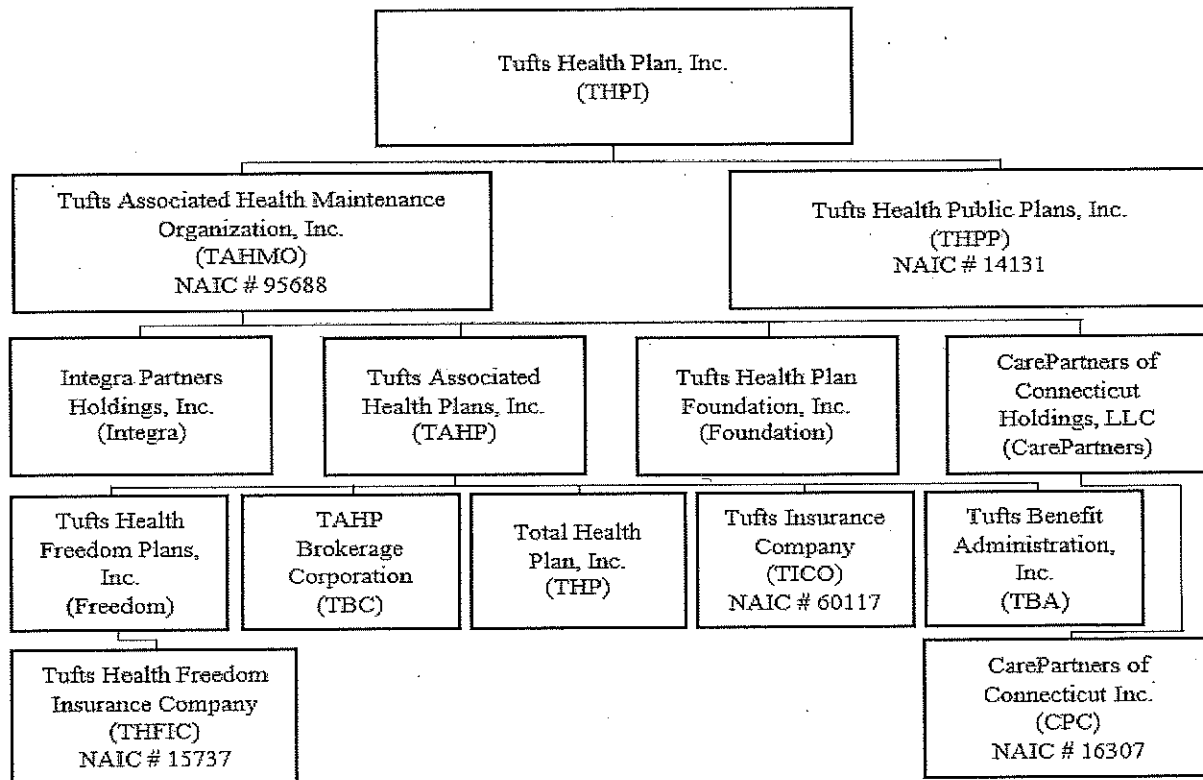
performance, and compatibility of such technology with the strategic direction of THPI and its subsidiaries and affiliates. Membership includes THPI Directors as are proposed by the Chairman of the Board or “Lead Director” and elected by the THPI Board.

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 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



Tufts Health Public Plans, Inc.

Transactions and Agreements with Subsidiaries and Affiliates

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

Management Agreement

Effective November 1, 2011, THPP and TAHP executed a Management Agreement in which TAHP agrees to provide THPP management, administrative and clerical services suitable for the operations of THPP. Services provided by TAHP under the agreement include, though are not limited to: financial management, business development and strategy, credentialing, property management, record retention, information systems, and human resources. THPP pays an annual management fee consistent with the U.S. Transfer Pricing Regulations under Section 482 of the code. The agreement was amended, effective January 1, 2013, to include Exhibit B – Medicare-Medicaid Demonstration CMS Contract Requirements provisions to the agreement. The total management fees for 2016 and 2017 were \$40,135,497 and \$57,524,965, respectively.

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. It was noted that THPP paid an extraordinary dividend in the amount of \$10,000,000 to TAHMO on or about September 29, 2015. The Division approved this extraordinary dividend in a letter dated September 30, 2015.

TAHMO has provided a parental guarantee that if THPP's capital and surplus fall below defined regulatory levels, 300% Authorized Control Level RBC, it will contribute capital to bring THPP to within regulatory compliance. It was noted that this agreement remained in effect subsequent the transfer of ownership of THPP to THPI.

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 \$1,826 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 \$702,413 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.

Tufts Health Public Plans, 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 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 Health Public Plans, Inc.

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

	Per Annual Statement
Assets	
Bonds	\$ 132,000,794
Common stocks	322,681,656
Cash, cash equivalents and short-term investments	61,570,722
Subtotals, cash and invested assets	516,253,172
Investment income due and accrued	106,146
Premiums and considerations:	
Uncollected Premiums and agents balances	(5,697,459)
Accrued retrospective premium and contracts subject to redetermination	54,704,729
Reinsurance:	
Amounts recoverable from reinsurers	702,413
Amounts receivable relating to uninsured plans	1,174,592
Electronic data processing equipment and software	3,183,223
Receivables from parent, subsidiaries and affiliates	486,124
Health care and other amounts receivable	10,866,298
Total assets	\$ 581,779,238
Liabilities	
Claims unpaid	\$ 207,272,436
Accrued medical incentive pool and bonus amounts	2,531,000
Unpaid claims adjustment expenses	3,974,834
Aggregate health policy reserves	45,101,998
Premiums received in advance	2,199,960
General expenses due or accrued	18,079,365
Ceded reinsurance premiums payable	1
Amounts due to parent, subsidiaries and affiliates	6,217,586
Liability for amounts held under uninsured plans	3,537,828
Aggregate write-ins for other liabilities	45,534,000
Total liabilities	\$ 334,449,008
Aggregate write-ins for special surplus funds	19,948,000
Gross paid in and contributed surplus	289,000,000
Unassigned funds (surplus)	(61,617,770)
Total capital and surplus	\$ 247,330,230
Total liabilities capital, and surplus	\$ 581,779,238

Tufts Health Public Plans, Inc.

Statement of Income
For the Year Ended December 31, 2017

	Per Annual Statement
Member Months	<u>4,235,258</u>
Net premium income	\$ 1,830,683,558
Change in unearned premium reserves and reserve for rate credits	(38,152,511)
Aggregate write-ins for other non-health revenues	<u>10,438</u>
Total revenues	<u>\$ 1,792,541,485</u>
Deductions:	
Hospital/medical benefits	1,189,808,393
Other professional services	1,028,407
Emergency room and out-of-area	86,427,882
Prescription drugs	377,034,951
Incentive pool, withhold adjustment and bonus amounts	<u>1,627,000</u>
Subtotal	<u>\$ 1,655,926,633</u>
Net reinsurance recoveries	<u>738,394</u>
Total hospital and medical	<u>\$ 1,655,188,239</u>
Claims adjustment expenses	37,305,630
General administrative expenses	130,373,386
Increase in reserves for life and accident and health contracts	<u>(6,634,000)</u>
Total underwriting deductions	<u>\$ 1,816,233,255</u>
Net underwriting gain or loss	(23,691,770)
Net investment income earned	13,043,727
Net realized capital gains less capital gains tax	<u>2,158,327</u>
Net investment gain	<u>15,202,054</u>
Aggregate write-ins for other income or expenses	<u>2,354,304</u>
Net loss, after capital gains tax and before all other federal income taxes	<u>\$ (6,135,412)</u>
Federal and foreign income taxes incurred	<u>-</u>
Net loss	<u>\$ (6,135,412)</u>

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

	2017	2016	2015
Capital and surplus, December 31 prior year	\$193,520,051	\$202,171,200	\$179,949,802
Net loss	(6,135,412)	(9,582,291)	34,004,030
Change in net unrealized capital gains	21,767,834	10,986,758	(3,807,160)
Change in nonadmitted assets	(11,822,243)	(10,055,616)	2,024,528
Surplus adjustments - paid in	50,000,000		(10,000,000)
Net change in capital and surplus for the year	53,810,179	(8,651,149)	22,221,397
Capital and surplus, December 31 current year	\$247,330,230	\$193,520,051	\$202,171,200

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ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

A difference was noted between the amounts reported in the 2017 filed Annual Statements with the Division and the Audited Financial Statements included in the 2017 E&Y Audit Opinion.

	December 31, 2017	
Balance Sheet	Admitted Assets	Liabilities
Reported in 2017 THPP Annual Statement	\$ 581,779,000	\$ 334,449,000
Premiums received reclassification	6,594,000	6,594,000
Reported in audited statutory-basis	0	0
E&Y Audited Financial Statements	<u>\$ 588,373,000</u>	<u>\$ 341,043,000</u>

The process for recording monthly premium revenue and premium receipts begins with recording the premium revenue and premium receivable for the amount earned during the month. Subsequent payment is received after month end and the Company records the cash and reduces the premium receivable. As a result of an overpayment during the period 2017, in an amount of roughly \$6,594,000, the Company recorded an overstated decrease in premium receivable admitted asset. Identification of this overpayment resulted in a reclassification increasing premium receivable and recording a liability for the amount of the overpayment. This reclassification was noted in the Company's Audited Financial Statements as a difference between the 2017 Audited Statements and the 2017 Annual Statements filed with the Division.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no adverse findings, though 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 Specialists 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 THPP's UCL are reasonable as of December 31, 2017.

On January 1, 2015, THPP, 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

Tufts Health Public Plans, Inc.

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. THPP recorded a special surplus amount of \$19,948,000 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, THPP 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 1st of the year the fee is due. As of December 31, 2017, the Company has written health insurance subject to the ACA assessment, 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 \$19,948,000. This amount is reflected in special surplus as of December 31, 2017. THPP paid their portion of the annual health insurance industry fee on September 25, 2018 in the amount of \$17,711,748. 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.

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

Tufts Health Public Plans, Inc.

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.

SUMMARY OF RECOMMENDATIONS

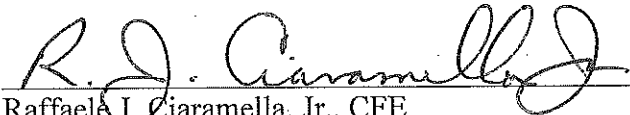
There were no significant recommendations noted in this report.

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