



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

REPORT OF EXAMINATION OF THE
TUFTS INSURANCE COMPANY

Watertown, Massachusetts

As of December 31, 2017

NAIC GROUP CODE 4742

NAIC COMPANY CODE 60117

EMPLOYER ID NUMBER 04-3319729

TUFTS INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
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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 175, Section 4, and other applicable statutes, an examination has been made of the financial condition and affairs of

TUFTS INSURANCE COMPANY

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 Insurance Company ("TICO" 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 175, Section 4, 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

TICO is a for profit Massachusetts insurance company and was originally licensed in 1996 in New Hampshire as a for-profit, accident & health carrier as a subsidiary of Tufts Health Plan of New England, Inc. During 2003, it was re-domesticated to Massachusetts. On September 1, 2008, under a restructure agreement, TICO became a subsidiary of Tufts Associated Health Plans, Inc. ("TAHP"), a for-profit corporation organized to perform certain management, administrative, and marketing services for its affiliates and subsidiaries. As of the restructure date, TAHP became a wholly owned subsidiary of Tufts Associated Health Maintenance Organization, Inc. ("TAHMO"), a not-for-profit corporation established for the purpose of arranging for the delivery of health care services, on a prepaid basis, to subscribing individuals and groups.

The Company is licensed in a number of states to write insurance; though actively writing in seven states, predominantly Massachusetts, Rhode Island, and New York.

The Company's lines of business include Comprehensive, Medicare Supplement, and Other Health. Primary products within Comprehensive line of business included Advantage Preferred Provider Option ("APPO"), PPO Carelink, and Student Health products. In addition to the Medicare Supplement product, the Other Health line of business consists of Medicare Part D prescription drug coverage ("PDP") which includes wrap coverage.

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. As a subsidiary of TAHMO and the ultimate parent, Tufts Health Plan, Inc. ("THPI"), the committees formed by these Boards also provide oversight to TICO.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws provide guidance related to corporate governance, including the roles and responsibilities of the Shareholders, Board and Officers of the Company.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except such as are conferred upon the shareholders by law, the

Tufts Insurance Company

articles of organization, or bylaws. The Board shall consist of not fewer than five and no more than fifteen Directors.

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

<u>Director</u>	<u>Title</u>
Robert R. Spellman	Chairman of the Board, TAHMO
Thomas A. Croswell	President and Chief Executive Officer, TAHMO
Umesh Kurpad	Chief Financial Officer, TAHMO
Mary O'Toole Mahoney, Esq.	Senior Vice President, Chief Legal Officer, TAHMO
Patricia Trebino	Senior Vice President, Chief Operations Officer, TAHMO

Officers

According to the Company's bylaws, the officers shall be a chief executive officer, 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 Company has appointed a resident agent to receive service of process.

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
Mary O'Toole Mahoney, Esq.	Senior Vice President, Chief Legal Officer
Susan A. Kee, Esq.	Assistant Clerk

Committees of the Board of Directors

The Company may provide for an Executive Committee or other committees to be elected from and by the Board, and the directors may delegate to any such committee or committees some or all of their powers. As part of the THPI holding company, TICO is under the oversight of the Committees established at the THPI and TAHMO entity levels; based on our review of the Committee Charters.

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 Insurance Company

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.

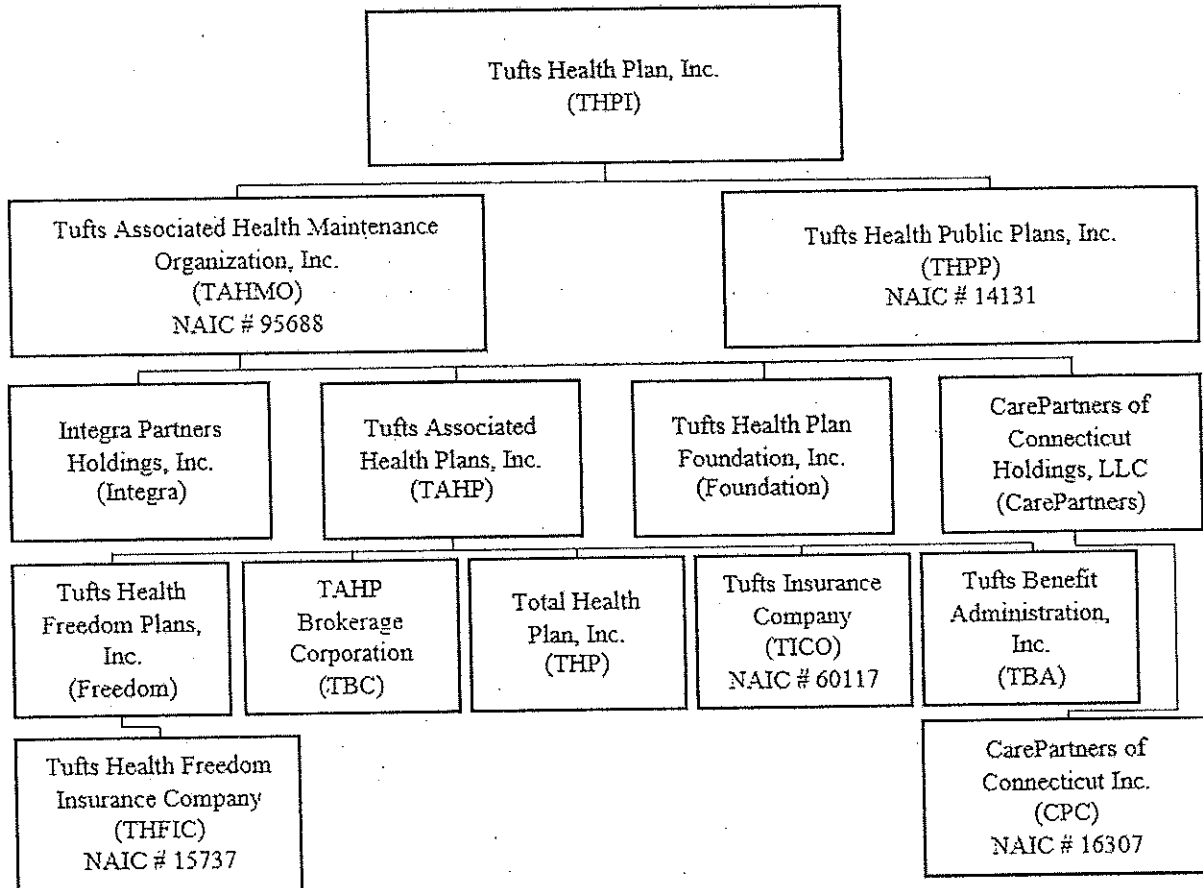
Affiliated Companies

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 Insurance Company

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

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

Tufts Insurance Company

transaction occurred. This agreement was subsequently amended, on November 1, 2011 to include THPP as a party to the agreement.

Administrative Services Agreement – TBA

This agreement, effective January 1, 2003, was executed between TICO 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, marketing, accounting, and sales. The agreement was subsequently amended, on August 24, 2005, to make changes to Exhibits within the agreement related to record retention, change effective dates, and ensure TICO's investment guidelines were followed by TBA. Administrative fees paid to TBA were \$16,538,934 and \$16,631,802 for 2016 and 2017, respectively.

Administrative Services Agreement – TAHMO

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 \$7,610,344 and \$7,851,198 for 2016 and 2017, respectively.

Federal Tax Allocation Agreement

This agreement, effective September 1, 2008, was entered into by TAHMO, TAHP 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

The Company has paid no dividends, extraordinary or otherwise, over the course of the examination period.

Tufts Insurance Company

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 was licensed in twenty-one states, but the Company was only writing health insurance business in seven of these licensed states, with the largest numbers of insurance risks written in Massachusetts and Rhode Island. The Company reported \$248 million 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 \$71,488 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.

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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 Insurance Company

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

	Per Annual Statement
Assets	
Bonds	\$ 41,298,956
Common stocks	16,494,734
Cash, cash equivalents and short-term investments	20,406,478
Aggregate write-ins for invested assets	(2)
Subtotals, cash and invested assets	<u>78,200,166</u>
Investment income due and accrued	131,939
Premiums and considerations:	
Uncollected premiums and agents' balances	1,860,812
Reinsurance:	
Amounts recoverable from reinsurers	71,488
Amounts receivable relating to uninsured plans	3,476,524
Receivables from parent, subsidiaries and affiliates	8,176,169
Health care and other amounts receivable	5,873,783
Aggregate write-ins for other than invested assets	1,078,000
Total assets	<u><u>\$ 98,868,881</u></u>
Liabilities	
Claims unpaid	\$ 29,473,857
Unpaid claims adjustment expenses	504,218
Aggregate health policy reserves	10,347,001
Premiums received in advance	3,175,589
General expenses due or accrued	948,131
Amounts due to parent, subsidiaries and affiliates	1,812,930
Total liabilities	<u><u>\$ 46,261,726</u></u>
Aggregate write-ins for special surplus funds	4,502,000
Common capital stock	3,000,000
Gross paid in and contributed surplus	152,500,000
Unassigned funds (surplus)	(107,394,845)
Total capital and surplus	<u><u>\$ 52,607,155</u></u>
Total liabilities capital, and surplus	<u><u>\$ 98,868,881</u></u>

Tufts Insurance Company

Statement of Income For the Year Ended December 31, 2017

	Per Annual Statement
Member Months	<u>808,984</u>
Net premium income	\$ 278,780,892
Deductions:	
Hospital/medical benefits	151,929,478
Other professional services	6,088,892
Emergency room and out-of-area	33,616,754
Prescription drugs	59,460,723
Aggregate write-ins for other hospital and medical	2,721,319
Incentive pool, withhold adjustment and bonus amounts	386,851
Subtotal	<u>\$ 254,204,017</u>
Net reinsurance recoveries	-
Total hospital and medical	<u>\$ 254,204,017</u>
Claims adjustment expenses	10,266,007
General administrative expenses	29,273,104
Increase in reserves for life and accident and health contracts	(3,001,000)
Total underwriting deductions	<u>\$ 290,742,128</u>
Net underwriting gain or loss	(11,961,236)
Net investment income earned	897,145
Net realized capital gains less capital gains tax	-
Net investment gain	<u>897,145</u>
Net loss, after capital gains tax and before all other federal income taxes	<u>\$ (11,064,091)</u>
Federal and foreign income taxes incurred	<u>(1,389,119)</u>
Net loss	<u><u>\$ (9,674,972)</u></u>

Tufts Insurance Company

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	\$50,689,674	\$53,435,333	\$50,468,096
Net loss	(9,674,972)	(21,864,807)	(5,983,379)
Change in net unrealized capital gains	(397)	63,906	(18,187)
Change in nonadmitted assets	1,592,850	(944,739)	(1,031,197)
Surplus adjustments paid in	10,000,000	20,000,000	10,000,000
Net change in capital and surplus for the year	1,917,481	(2,745,659)	2,967,237
Capital and surplus, December 31 current year	<u>\$52,607,155</u>	<u>\$50,689,674</u>	<u>\$53,435,333</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

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 TICO's UCL are reasonable as of December 31, 2017.

On January 1, 2015, TICO, 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. TICO recorded a special surplus amount of \$4,502,000 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, TICO 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 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 \$4,502,000. This amount is reflected in special surplus as of December 31, 2017. TICO paid their portion of the annual health insurance industry fee on September 25, 2018 in the amount of \$4,313,676. 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.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations that should be noted in this report.

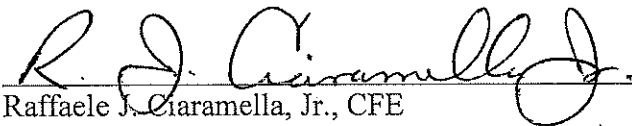
Tufts Insurance Company

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