

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

Division of Insurance

Report on the Statutory Examination of
Tufts Associated Health Maintenance Organization, Inc.

Watertown, Massachusetts

As of December 31, 2008

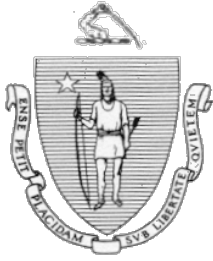
NAIC COMPANY CODE: 95688

EMPLOYERS ID NUMBER: 04-2674079

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

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

1000 Washington Street, 8th Floor • Boston, MA 02118
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

March 26, 2010

The Honorable Alfred W. Gross, Chair
Financial Condition (E) Committee, NAIC
Commissioner
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

The Honorable Joel Ario
Secretary, Northeastern Zone NAIC
Commissioner of Insurance
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
1000 Washington Street, 8th Floor
Boston, Massachusetts 02118

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G, Section 10, an examination has been made of the financial condition and affairs of

Tufts Associated Health Maintenance Organization, Inc.

at its main administrative office located at:

705 Mount Auburn Street
Watertown, MA 02472-1508

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This statutory examination of Tufts Associated Health Maintenance Organization, Inc., hereinafter referred to as “the Company,” “the Corporation,” or “TAHMO,” is as of December 31, 2008, including any material transactions and events occurring subsequent to the examination date and noted during the course of this statutory examination. KPMG LLP (“KPMG”) has applied certain agreed-upon procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Commonwealth of Massachusetts Division of Insurance (the “Division”).

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Division. The statutory examination was performed at the Company's main administrative office in Watertown, Massachusetts. KPMG was engaged to perform certain agreed-upon procedures, which are in compliance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners' Handbook*. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2008. KPMG's Information Technology Advisory Services (ITAS) personnel were engaged to perform an Evaluation of Controls in Information Systems Questionnaire in a form substantially similar to the one established in the *NAIC Financial Condition Examiners' Handbook*. The ITAS specialists performed examination procedures pertaining to the examination of the IT systems as outlined in the *NAIC Financial Condition Examiners' Handbook*. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current *NAIC Financial Condition Examiners' Handbook*. The principal focus of the examination was 2008 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, provider contracts, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the examination team placed reliance on certain workpapers provided by the Company's independent auditor, Ernst & Young LLP (E&Y). Wherever possible and wherever deemed appropriate and effective, E&Y's independent work product was used to define, support, document and expedite the overall examination process.

DESCRIPTION OF COMPANY

History

TAHMO is a not-for-profit corporation domiciled in Massachusetts. The Company was established in 1979 for the purpose of arranging for the delivery of comprehensive health care services on a prepaid basis to subscribing individuals and groups.

Tufts Insurance Company (TICO) was licensed in 1996 in New Hampshire as a for-profit Life, Accident & Health carrier and was a subsidiary of Tufts Health Plan of New England (TNE). The Company's former subsidiary, TAHMO Holdings, Inc., relinquished control of TNE to the New Hampshire Department of Insurance in 1999; as of December 31, 2008 TNE was in the process of being liquidated. Pursuant to the court-approved liquidation plan for

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TNE, all of the outstanding TICO stock was conveyed in 2001 to TAHMO Holdings, Inc. (THI), a wholly-owned subsidiary of TAHMO. During 2003, TICO changed its domicile to Massachusetts. TICO began writing business in 2003.

TAHMO's wholly owned subsidiary, Tufts Associated Health Plans, Inc. (TAHP), is a for-profit corporation that was organized in 1987 and performs certain management, administrative and marketing services for its parent and subsidiaries. Payments for these services are made pursuant to terms established in a management agreement. TAHP is the direct corporate parent of TICO and three other subsidiaries. These other subsidiaries are Tufts Benefit Administrators, Inc. (TBA), a for-profit corporation which was established in 1995 and provides third-party administration (TPA) services to group members in insured and self-insured preferred provider arrangements; Total Health Plan, Inc. (THP), a for-profit corporation formed in 1986, providing TPA services to group members in insured and self-insured point-of-service arrangements and self-insured exclusive provider organization arrangements; and TAHP Brokerage Corporation (TBC), a for-profit corporation which sells non-affiliated insurance products (e.g., group life insurance and reinsurance) and has been relatively inactive for the past several years. TAHMO's other wholly owned subsidiary is the Tufts Health Plan Foundation, Inc., a not-for-profit charitable foundation that was formed in October 2007.

Capital and Surplus

Capital and Surplus consists of capital contributed to the Company and the excess of revenues over expenses since inception. The total admitted assets, total liabilities and capital and surplus of the Company for the years ended 2006 through 2008 are shown in the following schedule:

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2008	\$738,548,493	\$292,222,615	\$446,325,878
2007	884,135,616	347,982,578	536,153,038
2006	842,871,501	361,672,529	481,198,972

MANAGEMENT

Articles of Organization and By-Laws

The Board of Directors may make, amend or repeal the Company's By-Laws in whole or in part, provided that notice of the substance of proposed amendments is provided to the Directors prior to the meeting.

Members and Membership

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

- The Corporation shall not have any members. Any action or vote required or permitted by law to be taken by members shall be taken by action or vote of the same percentage of the Directors of the Corporation.

BOARD OF DIRECTORS

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

- The Board shall have the entire charge, control and management of the Corporation and its property and may exercise all or any of its powers. Notwithstanding anything to the contrary elsewhere in the Company's By-Laws, for so long as the Corporation retains its status as a §501(c)(4) organization exempt from federal income tax, the Board shall take no action which is inconsistent with such status.

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- The Board shall consist of not less than seven (7) and not more than fourteen (14) Directors. A majority of such Directors shall be “independent” as that term is used by the Internal Revenue Service in connection with annual reporting requirements applicable to organizations exempt from taxation under §501(a) of the Internal Revenue Code.
- The Board shall include not less than one and not more than two Directors who serve as management of the Corporation (Management Directors), one of whom shall be the Chief Executive Officer (CEO) serving *ex officio*. 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. If the CEO has been designated as Chair of the Board, 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 any instance where it would be inappropriate for a Management Director to be Chair.
- Except for Management Directors, the Directors shall be divided into three classes of approximately equal size with staggered three year terms, each expiring at the third annual meeting of the Board following their election. The Management Directors other than the CEO, if any, shall hold office for terms expiring at the first annual meeting of the Board following their election.
- Other than the CEO and any other Management Director, no person may serve as Director for more than four consecutive three year terms. No person may be elected as Director who has reached the age of 75 years.
- The Board shall fix the date, place and time of the annual meeting of the Board. The purpose of the annual meeting shall be to elect the Corporation’s officers, Board officers and Directors and transact such other business as may properly be brought before the annual meeting.
- Regular meetings of the Board shall be held at such time and place as shall be determined by the Board. Special meetings of the Board may be called by or at the request of the Chair or any two Directors. At any meeting of the Board a majority of the Directors then in office and entitled to vote at meetings thereof shall constitute a quorum.
- At any meeting of the Board at which a quorum is present, the action of the Board on any matter brought before the meeting shall be decided by vote of a majority of Directors present and entitled to vote at such meeting, except to the extent a larger number is required by law, the Articles of Organization or the Company’s By-Laws. Each non-Management Director shall have one vote and the designated Management Director shall have one vote. An affirmative vote of at least three-fourths of all Directors then in office and entitled to vote is necessary to terminate or authorize the termination of any management services agreement between TAHMO and TAHP or to remove or authorize the removal of the CEO. Any action by the Board may be taken without a meeting if a written consent thereto is signed by all the Directors and filed with the records of the Board; such consent shall be treated as a vote of the Board for all purposes. A Director who is present at a meeting of the Board at which action on any matter is taken shall be conclusively presumed to have assented to the action unless his or her dissent is indicated by voice vote at the time the action is taken.
- If the office of any Director becomes vacant or a new directorship is created, the Board shall select a successor or a Director to fill the vacancy, as the case may be. Any Director appointed to fill a vacancy shall be appointed for the unexpired term of his or her predecessor in office. Any Director may be removed from office at any time for cause. In the event a Director, member of the Nominating Committee, or member of any other Standing Committee or advisory committee becomes a director, officer, employee or two percent or more shareholder of any organization that competes in business with the Corporation, such individual shall upon receipt of a written request for resignation from the Chair, be deemed to have resigned his or her position on the Board or applicable committee. Any Director may resign from office by delivering a written resignation to any officer of the Corporation or to the Board, which shall take effect upon delivery or at such other time as may be specified within.

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At December 31, 2008, the Board was comprised of fourteen (14) Directors, which is in compliance with the Company's By-Laws. Directors duly elected and serving at December 31, 2008, with addresses and business affiliations, were as follows:

<u>Director</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
Peter Drotch Framingham, MA	2009 (1)	Retired
David S. Green, M.D. Boston, MA	2011	Physician
Victor Hernandez North Reading, MA	2009 (2)	Director, Department of Mental Retardation, Commonwealth of MA
Jackie Jenkins-Scott Brookline, MA	2010	President, Wheelock College
Thomas P. O'Neill, III Boston, MA	2009 (1)	Chief Executive Officer, O'Neill and Associates
James Roosevelt, Jr., Esq. Cambridge, MA	<i>Ex officio</i>	Chief Executive Officer and President, Tufts Associated Health Maintenance Organization, Inc.
Davey S. Scoon Naples, FL	2011	Adjunct Clinical Instructor, Tufts University School of Medicine
Greg D. Tranter Shrewsbury, MA	2010	Senior VP and Chief Information Officer, Hanover Insurance Group
Paul Kasuba, M.D. Milton, MA	2010	Physician, Caritas Physician Network
Barbara Shattuck Kohn New York, NY	2009 (2)	Principal, Shattuck Hammond Partners, Inc.
James A. McNulty West Chatham, MA	2011	Retired
Eileen C. Shapiro Cambridge, MA	2009 (2)	President, Hillcrest Group, Inc.
Robert Spellman Westwood, MA	2010	Retired
Susan Windham-Bannister, Ph.D. Carlisle, MA	2009 (1)	President and Chief Executive Officer, Massachusetts Life Sciences Center

(1) Messrs. Drotch and O'Neill and Dr. Windham-Bannister were re-elected in June 2009 to terms expiring in 2012.

(2) As of the June 17, 2009 annual meeting, Mr. Hernandez and Mses. Shattuck Kohn and Shapiro were not re-elected to the Board as the Board voted to reduce its size from fourteen to twelve members, with one vacancy.

Committees of the Board

The Company's By-Laws indicate the following regarding committees of the Board:

Standing Committees: The Board shall provide for an Audit Committee and may provide for other committees, each such committee to be elected from and by the Board. The Board may delegate to any such committee some or all of its powers except for changes to the principal office of the Corporation, election of officers, filling officer vacancies, removing officers from office or taking any action for which the Company's By-Laws require a vote of three-fourths of the Directors.

Nominating Committee: The Board shall annually appoint a Nominating Committee consisting of members of the Board. The Nominating Committee shall nominate candidates, pursuant to guidelines established by the Board, to serve as Directors of the Corporation and as directors of any affiliates or subsidiaries of the Corporation.

Advisory Committees: The Board may establish or recognize advisory committees other than the Standing Committees. No committee established as an Advisory Committee shall have any power to act on behalf of the Board.

The current standing committees of the Board and committee membership as of December 31, 2008 were as follows:

<u>Committee</u>	<u>Membership</u>
Audit and Compliance Committee (1)	Peter Drotch (Chair), Victor Hernandez, Barbara Shattuck Kohn, Davey Scoon, Robert Spellman, Greg Tranter
Compensation Committee	Robert Spellman (Chair), David Green, Jackie Jenkins-Scott, James McNulty, Davey Scoon
Technology Committee (2)	Greg Tranter (Chair), Victor Hernandez, Paul Kasuba, Davey Scoon, Susan Windham-Bannister
Finance Committee (3)	Barbara Shattuck Kohn (Chair), Peter Drotch, Jackie Jenkins-Scott, Paul Kasuba, Thomas P. O'Neill III, Davey Scoon
Nominating Committee (4)	David Green (Chair), James Roosevelt, Jr., Davey Scoon, Eileen Shapiro, Robert Spellman
Sales and Marketing Committee (5)	James McNulty (Chair), Paul Kasuba, Thomas P. O'Neill III, Davey Scoon, Eileen Shapiro, Susan Windham-Bannister

(1) Paul Kasuba was appointed to the Audit and Compliance Committee in June 2009, replacing Mr. Hernandez, Mr. Spellman and Ms. Shattuck Kohn.

(2) Mr. Hernandez ceased to serve on the Technology Committee as of June 2009.

(3) As of June 2009, Robert Spellman and Susan Windham-Bannister (Chair) were appointed to the Finance Committee. Mses. Shattuck Kohn and Jenkins-Scott, Dr. Kasuba and Mr. O'Neill ceased to serve on this committee as of June 2009.

(4) The Nominating Committee was replaced by the Governance Committee as of June 2009 to reflect additional corporate governance responsibilities. Peter Drotch and Thomas P. O'Neill III were appointed to the Governance Committee in June 2009, replacing Ms. Shapiro and Mr. Spellman.

(5) Jackie Jenkins-Scott was appointed to the Sales and Marketing Committee as of June 2009, replacing Ms. Shapiro and Dr. Windham-Bannister.

OFFICERS

The Company's By-Laws indicate the following regarding officers of the Corporation:

The officers of the Corporation shall be a CEO, 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 of process. The Board may appoint such other officers as they deem necessary who shall have such authority and shall perform such duties as may be prescribed by the Board. Any person may 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 Corporation shall be elected by the Board at its annual meeting or as soon thereafter as practicable. Each officer except the CEO shall hold office until the next annual meeting of the Board following his or her election. The CEO shall be appointed at such time and for such term as the Board shall determine. Any officer may resign at any time by filing with any other officer or the Board a written resignation which shall take effect upon receipt, unless otherwise specified therein. Any officer or agent of the Corporation may be removed without cause by the Board, except that the CEO may be removed only for cause and in accordance with the Company's By-Laws and any contract rights that he or she may have.

The Board may appoint such Assistant Treasurers, Assistant Clerks, Controllers and other officers, and such agents as the Board may determine, to hold office for such period and such authority and to perform such duties as the Board may determine.

The Company's officers and their respective titles at December 31, 2008 were as follows:

<u>Officer</u>	<u>Title</u>
James Roosevelt Jr., Esq.	President and Chief Executive Officer
Lois Dehls Cornell, Esq.	Clerk, Senior Vice President of HR and General Counsel
Thomas A. Croswell	Chief Operating Officer
Robert Egan	Senior Vice President, Marketing, Product and Strategy
Allan Hinkle, M.D.	Senior Vice President and Chief Medical Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Brian Pagliaro	Senior Vice President, Sales and Client Services
Patricia Trebino	Senior Vice President of Operations, Chief Information Officer
David Abelman, Esq.	Vice President, Assistant Clerk and Deputy General Counsel and Senior Compliance Officer
Derek Abruzzese	Vice President, Product and Strategy
Patricia Blake	Vice President, Senior Products
Tracey Carter	Vice President and Chief Actuary
Patti Embry-Tautenhan	Vice President, Corporate Communications
Lydia Greene	Vice President, Human Resources & Diversity
Aida Magarace Guida	Vice President, Finance and Corporate Controller
Joseph Imbimbo	Vice President, Technology Operations
Anne Metzger	Vice President, Clinical Services
Mim Minichiello	Vice President, Sales
Marc Spooner	Vice President, Provider Contracting
Miriam Sullivan	Vice President, Allied Health and Pharmacy Services
Roland Price	Treasurer

CONFLICT OF INTEREST PROCEDURES

The Company has adopted a Conflict of Interest policy. Each Director and each member of each Board advisory committee shall annually deliver to the Board, at or about the time of the annual meeting, a true and complete conflicts of interest statement in the form approved by the Board. Each Director and each member of a Board advisory

committee shall promptly update his or her most recent conflicts of interest statement upon the occurrence of any event that makes the information contained in such conflicts of interest statement no longer true or that would be required to be reported to the Board.

Should a contract or other transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other organization in which one or more of its Directors or officers are directors, officers or have a financial interest, the contract or transaction shall not be void or voidable solely for this reason if the material facts of the conflict are disclosed or known to the Board or applicable committee, the contract or transaction is fair and reasonable to the Corporation, and the contract or transaction is authorized by a majority vote of the disinterested Directors.

Review of the 2008 Board of Directors records identified no significant conflicts of interest and no financial conflicts of interest.

CORPORATE RECORDS

Articles of Incorporation and By-Laws

The Company's By-Laws were most recently amended as of September 24, 2008. Significant changes were made to the By-Laws since the previous examination, primarily to update the By-Laws to reflect the corporate structure of TAHMO and its affiliated companies subsequent to the September 2008 corporate reorganization. These changes have been incorporated into the appropriate report sections above.

Board of Directors Minutes

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

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

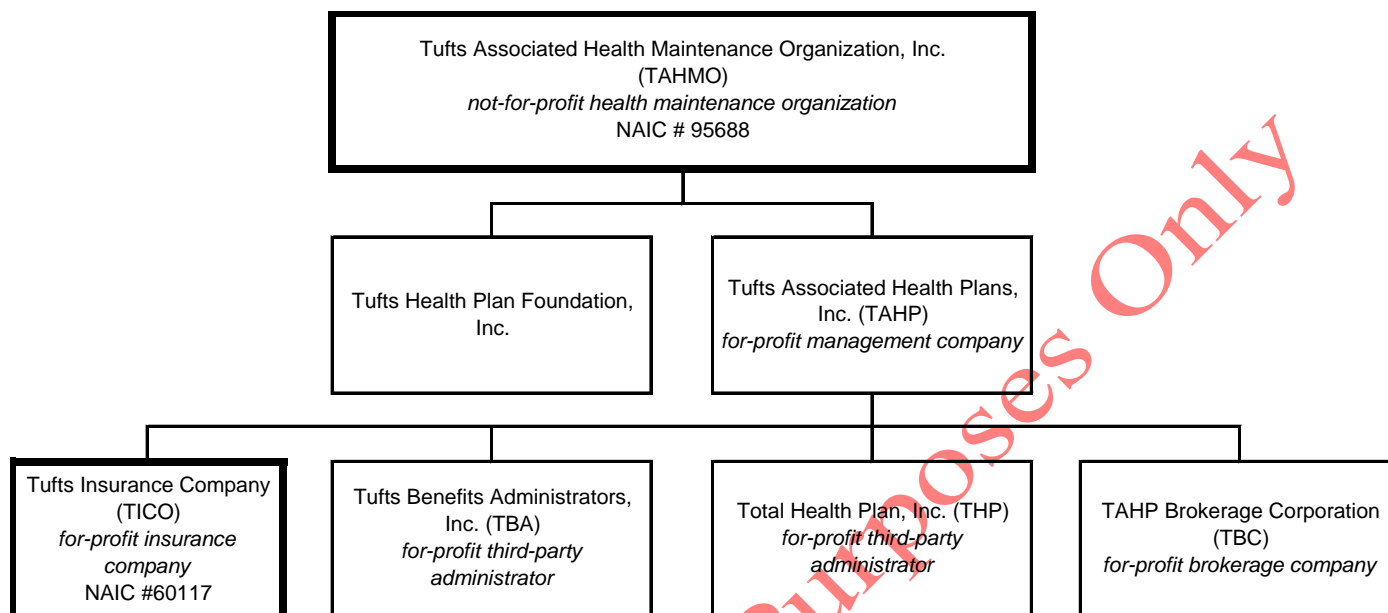
Effective September 1, 2008 following a corporate restructuring, TAHMO is the direct parent of TAHP and the Tufts Health Plan Foundation, Inc., and TAHP has four subsidiaries: TICO, TBA, THP and TBC. THI was merged into TAHP during the restructuring. Prior to the restructuring, TAHP was the parent and sole corporate member of TAHMO, which in turn owned all outstanding shares of TICO and TBA through its subsidiary, THI. TAHP also directly owned THP and TBC. Pursuant to the restructuring, TAHMO purchased TAHP; this transaction was treated as a statutory purchase.

MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws, Chapter 175, Sections 180M-180Q.

AFFILIATED COMPANIES

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2008 is illustrated below:



RELATED PARTY TRANSACTIONS

TAHP provides management services to TAHMO and its subsidiaries for many of their administrative needs. The management fee is determined primarily at TAHP's cost plus markup percentage, which is negotiated annually. The total management fees for 2008 and 2007 were \$114.2 million and \$111.9 million, respectively. The terms of the agreement require that these amounts be paid within 30 days. At December 31, 2008 and 2007, amounts payable from TAHMO to TAHP were \$8.8 million and \$7.6 million, respectively.

TAHMO contributed capital in the amount of \$7.0 million to its subsidiary, TAHP, during 2008. TAHMO contributed capital in the amount of \$25.0 million to its subsidiary, THI during 2007. TAHMO did not make capital contributions to THI during 2008. THI was merged into TAHP during the September 2008 restructuring of TAHMO and its subsidiaries. TAHMO's capital contributions to TAHP and THI were used for additional capitalization of TBA and TICO in connection with their operating losses. At December 31, 2008 and 2007, the carrying value of TAHMO's investments in its subsidiaries was \$39.0 million and \$35.8 million, respectively.

The Company owns 100% of the outstanding stock of its subsidiary, TAHP. The Company recognized an impairment write-down in its investment in TAHP of \$15.4 million at December 31, 2008 and an impairment write-down in its investment in THI of \$14.5 million at December 31, 2007.

TICO is a subsidiary of TAHP, which is a wholly owned subsidiary of TAHMO. At December 31, 2008 and 2007, the net amount payable from TAHMO to TICO was \$3.3 million and \$1.5 million, respectively. At December 31, 2008 and 2007, the net amount payable to TAHP from TICO, including administrative expenses paid by TAHMO, was \$6,000 and \$79,000, respectively.

TAHMO and THP have an agreement whereby THP will administer a POS plan insured by TAHMO. Administrative fees paid by TAHMO to THP were \$2.2 million and \$2.3 million in 2008 and 2007, respectively. At December 31,

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2008 and 2007, amounts payable to TAHMO from THP, including premiums collected by THP, were \$9.4 million and \$7.4 million, respectively.

TAHMO and TBA have an agreement whereby TBA administers a preferred provider organization plan insured by TAHMO. Administrative fees paid to TBA were \$3.8 million and \$3.5 million in 2008 and 2007, respectively. At December 31, 2008, amounts payable from TAHMO to TBA were \$2.3 million. At December 31, 2007, amounts payable from TBA to TAHMO were \$3.9 million.

At December 31, 2008, TAHMO had a receivable due from the Tufts Health Plan Foundation, Inc. in the amount of \$27,000.

TAHMO has an agreement with the New Hampshire Department of Insurance, the liquidator of TNE, whereby TAHMO has guaranteed the liabilities of TNE to all claimants. TAHMO believes this guarantee is adequately reserved at December 31, 2008.

FIDELITY BOND AND OTHER INSURANCE

The Corporation maintains fidelity bond coverage with an authorized Massachusetts insurer. The aggregate limit of liability exceeds the NAIC suggested minimum.

In addition to the bond insurance, the Company has further protected its interests and properties by acquiring policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2008.

PENSION AND INSURANCE PLANS

TAHP has a contributory defined contribution (401(k)) plan covering substantially all employees of TAHP and its affiliates. TAHP may match, at its discretion, the participants' eligible contributions and may make additional retirement contributions at the discretion of the Board of Directors. Contributions for each employee vest between one and three years of service. TAHMO's allocated share of contributions to the plan was \$942,000 and \$882,000 in 2008 and 2007, respectively.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2008 were as follows:

Description of Deposit	Purpose of Deposit	Book Value	Fair Value
U.S. Treasury Note, 8/15/2009 Maturity	Massachusetts – Protection for All Policyholders	\$4,009,058	\$4,111,560
		<u>\$4,009,058</u>	<u>\$4,111,560</u>

TERRITORY AND PLAN OF OPERATION

Territory

The Corporation is licensed to transact business in the Commonwealth of Massachusetts.

Plan of Operation

Tufts Associated Health Maintenance Organization, Inc. is headquartered in Watertown, MA. As of December 31, 2008, TAHMO provided service throughout Massachusetts, except for Martha's Vineyard and Nantucket. TAHMO expanded into the Rhode Island market in 2009 and into Martha's Vineyard and Nantucket in 2010, which is discussed below in the Subsequent Events section.

PRODUCTS

The Company offers the following insured products:

HMO (Health Maintenance Organization) – For an HMO member, a Primary Care Physician (PCP) provides or authorizes the member's health care, except in cases of emergency. The member pays a copayment for office visits, and need only show his or her ID card to obtain services. If a member needs specialty care, the PCP selects the specialists and makes the referral, usually to a specialist in the same provider unit as the PCP. Several levels of coverage, from Premium to Value to Basic are available, with varying levels of inpatient and outpatient copayments and coinsurance.

Advantage HMO – This product has the same features as the HMO described above, although members pay a front-end deductible for inpatient hospital care, outpatient surgery and diagnostics, and certain other services. The Company also offers an Advantage Saver HMO with similar features and higher deductibles.

POS (Point of Service) – Members may choose from two levels of care. When visiting a provider for authorized care within the network, members pay a small copayment for office visits and emergency services, with the plan covering physician and specialist care. Members can also select their own specialist or hospital through self-referral, and then pay a yearly deductible and applicable coinsurance. Once the member reaches the out-of-pocket maximum, they are covered 80% for covered services at the unauthorized level of care.

Choice Copay Option – This plan option is available for HMO and POS products, and offers a tiered provider network for inpatient and outpatient services. For outpatient care, members pay a lower copayment for care provided by a PCP, and a higher copayment for specialist care. For inpatient care, members pay a lower copayment for treatment at community hospitals, and a higher copayment for care at tertiary hospitals in the service area.

PPO (Preferred Provider Organization) – The PPO product is available to employers on a fully insured basis. A PCP is not required for members in the PPO. Members can receive care from any provider within the network and pay only a copayment for many covered services. Members can also see any provider outside of the network without a referral, although they will pay a deductible and coinsurance for covered non-network services.

Health Savings Account – The health savings account option (HSA) may be selected with the Company's front-end deductible Advantage Saver HMO plan. Both employees and employers can contribute to a member's HSA; however, funds can only be contributed to the HSA while an HSA compatible health plan is effective. A HSA account belongs solely to the employee. Should the member terminate employment, or change to a health plan that is not HSA compatible, the funds in the HSA still belong to the member and can continue to be used for qualified medical expenses. Funds that remain in the HSA rollover annually, allowing the employee to build up savings for future qualified medical expenses, while earning interest, tax-free.

Tufts Health Plan Medicare Preferred HMO – This Medicare Advantage plan is available to individuals enrolled in Medicare Parts A and B. Members receive comprehensive HMO benefits either through an employer group or on an individual basis. Additional prescription drug coverage is also available to further enhance coverage. To join Tufts Health Plan Medicare Preferred, a person must be enrolled in Medicare Parts A and B.

Tufts Health Plan Medicare Preferred PPO – This Medicare Advantage plan is available to individuals eligible for Medicare Parts A and B. The PPO product features a deductible/copay/co-insurance fee structure. Members do not need to choose a PCP and do not need to obtain referrals for out-of-network services. Tufts Health Plan Medicare Preferred PPO has a network of plan providers. These providers include doctors, other healthcare professionals, hospitals and healthcare facilities that are licensed by the State to provide healthcare services, and participate with Medicare. Members may also obtain services from a non-plan provider who accepts Medicare. However, with the exception of Emergency and Urgent Care, co-payments and other out-of-pocket costs for out-of-network services are higher.

Tufts Health Plan Medicare Preferred Private Fee-for-Service (PFFS) – This Medicare Advantage plan is available to individuals eligible for Medicare Parts A and B. However, the Medicare Advantage Private Fee-for-Service Plan is not a Medicare supplement plan. Members may go to any doctor or hospital anywhere in the country that is Medicare-approved, willing to provide care, and accepts Tufts Health Plan Medicare Preferred's PFFS terms and conditions of payment. Doctors and hospitals are not required to agree to accept the Tufts Health Plan Medicare Preferred PFFS plan's terms and conditions of payment. PFFS covered services are subject to co-payments and deductibles.

Tufts Health Plan Medicare Complement – This is an HMO plan that complements a member's Medicare coverage. Available on an employer group basis to eligible retirees, members have access to TAHMO's full provider network. Members must be enrolled in Medicare Part A and B.

PROVIDER CONTRACTS

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with physician providers and other health care providers. For all purposes, physician providers and such other organizations or individuals are and shall be deemed to be independent contractors with the Company, and shall not be characterized as officers, employees or agents of the Company.

The agreements are in compliance with Massachusetts statutes and regulation 211 CMR 52.00.

UNPAID CLAIMS

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities (UCL) as of December 31, 2008 and prior periods. For December 31, 2008, 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. As the TAHMO business pays fairly quickly, the range of estimates for the December 31, 2008 UCL is narrow and the actuarial estimates are similar to TAHMO's estimates with hindsight through September 30, 2009.

TAHMO made a separate provision for Loss Adjustment Expenses / Claim Adjustment Expenses (LAE/CAE) in 2008 and the resulting expense percentage levels used are within industry norms.

Based upon KPMG's review, the Unpaid Claims Liability at December 31, 2008 appears to be fairly stated in aggregate in all material respects.

The Company's premium deficiency reserve calculation was reviewed and found to be reasonable. The calculation indicated that no premium deficiency reserves were required as of December 31, 2008.

REINSURANCE

TAHMO does not assume any reinsurance and did not purchase stop-loss insurance in 2008, 2007 or 2006.

TICO had a reinsurance agreement with Destiny Health related to the Company's consumer driven health plan, Liberty by Tufts Health Plan (the Liberty Product). Effective July 1, 2006, the Company discontinued the Liberty Product and terminated the reinsurance agreement. At that date, and in accordance with the termination agreement, the member groups in the Liberty Product were allocated to either TICO or to Destiny Health. As a result, subsequent to July 1, 2006, TICO assumed 100% of all risks and costs related to its allocated block of members.

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting firm of Ernst & Young LLP in accordance with 211 CMR 23.00. The CPA Firm issued an unqualified opinion on the December 31, 2008 audited financial statements. The Company is also subject to review by an internal audit department.

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Corporation's Independent Certified Public Accountants (Ernst & Young LLP). No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA Firm's filings with the Division.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology (IT) environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Technology Advisory Services (ITAS) team, which evaluated the adequacy of the IT controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 Annual Statement. No material exceptions were noted.

SUBSEQUENT EVENTS

In the third quarter, 2008 TAHMO and TICO announced plans to formally enter the Rhode Island health plan market and bring additional competition to the state's providers, businesses and consumers. TICO entered the Rhode Island health plan market with its PPO product effective January 1, 2009. TAHMO entered the Rhode Island health plan market with its HMO product effective July 1, 2009. Additional staff was hired to manage the expected increase in membership, and a sales office was opened in Providence, Rhode Island.

In 2010, TAHMO and TICO expanded their service areas to include Nantucket and Martha's Vineyard.

On January 7, 2010, TNE was dissolved by order of the New Hampshire Superior Court.

During October 2009, TAHMO made a capital contribution of \$5 million to its subsidiary TICO.

During December 2009, TAHMO made a capital contribution of \$10 million to its subsidiary TBA.

COMMITMENTS AND CONTINGENCIES

Lease Obligations

TAHMO leases certain office space and equipment under operating lease agreements. Total lease expenses in 2008 and 2007 were \$1.2 million and \$5.7 million, respectively. The Company's lease expenses have decreased significantly since TAHMO purchased its Watertown, MA headquarters building effective August 7, 2007 and relocated corporate offices that were previously located in Waltham, MA.

The following is a schedule of future minimum annual lease commitments for these operating leases as of December 31, 2008 (000's):

Year ending December 31	Operating Lease
2009	\$836
2010	60
2011	60
2012	60
2013	35
Thereafter	<u>0</u>
Total	<u>\$1,051</u>

Legal Proceedings

TAHMO is involved in legal actions in the ordinary course of business. In the opinion of management, there are no legal proceedings pending against or involving TAHMO, the outcome of which is likely to have a material adverse effect upon the statutory financial statements.

FINANCIAL STATEMENTS

The Financial Statements section includes the following:	<u>Page</u>
Statutory Statement of Assets, Liabilities and Capital & Surplus as of December 31, 2008	16
Statement of Revenue and Expenses for the Year Ended December 31, 2008	17
Capital & Surplus for the Year Ended December 31, 2008	18
Reconciliation of Capital & Surplus for the Three Year Period Ended December 31, 2008	19

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2008.

For Information Purposes Only

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Tufts Associated Health Maintenance Organization, Inc.
Statutory Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2008

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>			
Bonds	\$ 256,280,654	\$ -	\$ 256,280,654
Stocks:			
Common stocks	276,153,103	-	276,153,103
Real estate:			
Properties occupied by the company	91,862,459	-	91,862,459
Cash, cash equivalents and short-term investments	65,092,558	-	65,092,558
Subtotals, cash and invested assets	689,388,774	-	689,388,774
Investment income due and accrued	2,470,804	-	2,470,804
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,909,074	-	3,909,074
Amounts receivable relating to uninsured plans	3,478,663	-	3,478,663
Electronic data processing equipment and software	15,093,624	-	15,093,624
Receivables from parent, subsidiaries and affiliates	9,418,264	-	9,418,264
Health care and other amounts receivable	14,789,290	-	14,789,290
Total Assets	\$ 738,548,493	\$ -	\$ 738,548,493
<u>LIABILITIES</u>			
Claims unpaid	\$ 195,482,480	\$ -	\$ 195,482,480
Accrued medical incentive pool and bonus amounts	27,182,301	-	27,182,301
Unpaid claims adjustment expenses	3,095,847	-	3,095,847
Aggregate health policy reserves	1,996,334	-	1,996,334
Premiums received in advance	22,754,377	-	22,754,377
General expenses due or accrued	22,356,479	-	22,356,479
Amounts due to parent, subsidiaries and affiliates	14,456,763	-	14,456,763
Other liabilities	4,898,034	-	4,898,034
Total Liabilities	\$ 292,222,615	\$ -	\$ 292,222,615
<u>CAPITAL AND SURPLUS</u>			
Unassigned funds (surplus)	446,325,878	-	446,325,878
Total Capital and Surplus	\$ 446,325,878	\$ -	\$ 446,325,878
Total Liabilities, Capital and Surplus	\$ 738,548,493	\$ -	\$ 738,548,493

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Tufts Associated Health Maintenance Organization, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2008

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Member months	4,374,382	-	4,374,382
Net premium income	\$ 2,242,061,454	\$ -	\$ 2,242,061,454
Total revenues	2,242,061,454	-	2,242,061,454
Hospital and medical:			
Hospital/medical benefits	1,585,712,305	-	1,585,712,305
Other professional services	28,425,186	-	28,425,186
Emergency room and out-of-area	16,476,643	-	16,476,643
Prescription drugs	244,995,380	-	244,995,380
Other hospital and medical	13,918,914	-	13,918,914
Incentive pool, withhold adjustments and bonus amounts	91,973,090	-	91,973,090
Claims adjustment expenses	64,616,136	-	64,616,136
General administrative expenses	172,619,440	-	172,619,440
Total underwriting deductions	2,218,737,094	-	2,218,737,094
Net underwriting gain	23,324,360	-	23,324,360
Net investment income earned	31,006,473	-	31,006,473
Net realized capital gains (losses)	(46,384,443)	-	(46,384,443)
Net investment gains (losses)	(15,377,970)	-	(15,377,970)
Other income	713,058	-	713,058
Net income	\$ 8,659,448	\$ -	\$ 8,659,448

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Tufts Associated Health Maintenance Organization, Inc.
Capital & Surplus
For the Year Ended December 31, 2008

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
Capital and Surplus, December 31, 2007	\$ 536,153,038	\$ -	\$ 536,153,038
Net income or (loss)	8,659,448	-	8,659,448
Change in net unrealized capital gains and losses less capital gains tax	(77,880,858)	-	(77,880,858)
Change in nonadmitted assets	(20,605,750)	-	(20,605,750)
Net change in capital and surplus	(89,827,160)	-	(89,827,160)
Capital and Surplus, December 31, 2008	\$ 446,325,878	\$ -	\$ 446,325,878

For Information Purposes Only

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Tufts Associated Health Maintenance Organization, Inc.
Reconciliation of Capital & Surplus
For the Three Year Period Ended December 31, 2008

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and Surplus, December 31, prior year	\$ 536,153,038	\$ 481,198,972	\$ 404,402,911
Net income or (loss)	8,659,448	76,431,331	82,834,395
Change in net unrealized capital gains and losses less capital gains tax	(77,880,858)	(13,709,660)	11,214,377
Change in nonadmitted assets	<u>(20,605,750)</u>	<u>(7,767,605)</u>	<u>(17,252,711)</u>
Net change in capital and surplus	<u>(89,827,160)</u>	<u>54,954,066</u>	<u>76,796,061</u>
Capital and Surplus, December 31, current year	<u>\$ 446,325,878</u>	<u>\$ 536,153,038</u>	<u>\$ 481,198,972</u>

For Information Purposes Only

ACKNOWLEDGMENT

This is to certify that the undersigned is a duly qualified Certified Financial Examiner (CFE) and that, in conjunction with KPMG LLP, the undersigned applied certain agreed-upon procedures to the accounting and corporate records of Tufts Associated Health Maintenance Organization, Inc. in order for the Division of Insurance of the Commonwealth of Massachusetts to fulfill the Commonwealth's requirements regarding periodic Statutory Examinations of Massachusetts domiciled insurers.

The undersigned's participation in this Statutory Examination as the Examiner-in-Charge encompassed responsibility for the coordination and direction of the statutory examination performed which was in accordance with, and substantially complied with, those standards established by the Financial Condition (E) Committee of the NAIC and the *NAIC Financial Condition Examiners' Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed-upon procedures), administration, review of work papers and preparation of the statutory examination report.

The cooperation and assistance of the officers and employees of Tufts Associated Health Maintenance Organization, Inc. extended to all examiners during the course of the examination is hereby acknowledged.

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