



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.

Watertown, Massachusetts

As of December 31, 2011

NAIC GROUP CODE 4742

NAIC COMPANY CODE 95688

EMPLOYER ID NUMBER 04-2674079

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COMMONWEALTH OF MASSACHUSETTS
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May 24, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your specific 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 home office 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 ("Company"), ("Corporation"), or ("TAHMO"), is as of December 31, 2011 and covers the period of January 1, 2009 through December 31, 2011 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The last exam was completed as of December 31, 2008.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance ("Division") 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 ("M.G.L."). Representatives from the firm of PricewaterhouseCoopers LLP ("PwC") were engaged by the Division to assist in the examination by performing certain examination procedures. This assistance included a review of accounting records, information systems, taxes, investments, and actuarially determined loss and loss adjustments expense reserves.

The principal focus of the examination was 2011 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. All accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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 work papers provided by the Company's independent auditor, Ernst & Young ("E&Y") and the Company's internal audit staff. Wherever possible and wherever deemed appropriate and effective, E&Y's and internal audit's independent work product was used to define, support, document and expedite the overall examination process.

A review and an evaluation of the control environment of the Company's information technology systems were performed. The NAIC's Information Technology (IT) Questionnaire completed by the Company was reviewed and interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. The control environment of the Company's information systems was reviewed and found to have in place sufficient internal controls.

This Report of Examination is written on an exception basis. Explanations of and details pertaining to various phases of the examination will be found herein. Unless it is specifically noted otherwise, all references to the accounts, activities, and transactions of the Company are as of December 31, 2011.

Tufts Associated Health Maintenance Organization, Inc.

Status of Prior Examination Findings

The prior report of examination did not have any findings.

HISTORY

General

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. TAHMO has three wholly owned subsidiaries, Network Health, LLC ("NH LLC"), Tufts Associated Health Plans, Inc. ("TAHP"), and the Tufts Health Plan Foundation, Inc. ("THPFI").

NH LLC is a Massachusetts limited liability corporation offering a Medicaid managed care product and a subsidized individual health care product. NH LLC was established on May 10, 2011. On October 28, 2011 TAHMO contributed capital of \$130 million to NH LLC, which purchased the assets and assumed the liabilities of Network Health, Inc. (an unrelated third party) on November 1, 2011. TAHMO subsequently contributed additional capital of \$25 million and \$15 million on December 13, 2011 and December 28, 2011, respectively, which was used for additional capitalization.

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 Tufts Insurance Company ("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, which provides TPA services to group members in insured and self-insured point-of-service arrangements and self-insured exclusive provider option arrangements; and TAHP Brokerage Corporation ("TBC"), a for-profit corporation, which sells non-affiliated insurance products.

Growth of Company

The growth of the Company for the years 2009 through 2011 is shown in the following schedule, which was prepared from the Company's Statutory Annual Statements:

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premium Income</u>
2011	\$927,797,543	\$395,037,186	\$532,760,357	\$2,536,019,911
2010	869,343,231	317,638,988	551,704,242	2,338,640,951
2009	801,335,751	284,534,641	516,801,110	2,273,000,503

MANAGEMENT

Articles of Organization and Bylaws

The Board of Directors may make, amend or repeal the Company's bylaws 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 bylaws 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 bylaws indicate the following regarding its Board of Directors ("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 these bylaws, for so long as the Corporation retains its status as an organization which is exempt from federal income tax as described in §501(c)(4) of the Internal Revenue Code, the Board shall take no action which is inconsistent with such status. The Board shall consist of not less than seven and not more than fourteen Directors, and that 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 (each such Director, a "Management Director"), one of whom shall be the Chief Executive Officer of the Corporation ("CEO") serving *ex officio*; provided that, if there is more than one Management Director, the Management Directors will be limited to one vote and the Management Director entitled to vote will be determined by the CEO; provided further that, if the CEO has been designated as the Chair of the Board (hereinafter, the "Chair"), the Board shall designate a Director who is not a Management Director to act as "Lead Director" and serve in place of the Chair in each instance where it would be inappropriate for a Management Director to be acting as the Chair. 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; provided that any Director who is elected during his or her final term in office to be Chairman of the Board shall be permitted to serve as Director for one additional consecutive three year term. No person may be elected as Director who has reached the age of 75 years.
- Regular meetings of the Board shall be held at such time and place as shall from time to time 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. The person or persons who call a special meeting of the Board may fix any place within the Commonwealth of Massachusetts for holding any such meeting. 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 bylaws. 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

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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 Governance 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.

At December 31, 2011, the Board was comprised of ten (10) Directors, which is in compliance with the Company's bylaws. Directors duly elected and serving at December 31, 2011, with business affiliations, were as follows:

<u>Director</u>	<u>Principal Occupation</u>
Peter Drotch	Retired
Harris A. Berman	Dean, Tufts University School of Medicine
Jackie Jenkins-Scott	President, Wheelock College
Thomas P. O'Neill, III	Chief Executive Officer, O'Neill and Associates
James Roosevelt, Jr., Esq.	Chief Executive Officer and President, Tufts Associated Health Maintenance Organization, Inc.
Davey S. Scoon, Chairman	Professional Director; Currently serving on the Boards of Allianz Mutual Funds, Orthofix and Amag Pharmaceutical, Honorary Associate/Fellow University of Wisconsin
Greg D. Tranter	Senior VP and Chief Information Officer and Corporate Operations Officer, Hanover Insurance Group
James A. McNulty	Retired
Robert Spellman	Consultant
Susan Windham-Bannister, Ph.D.	President and Chief Executive Officer, Massachusetts Life Sciences Center

Committees of the Board

The Company's bylaws 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 bylaws require a vote of three-fourths of the Directors.

Governance Committee

The Board shall annually appoint a Governance Committee consisting of members of the Board. The Governance 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, 2011 were as follows:

Committee

Audit and Compliance Committee
Compensation Committee

Technology Committee
Finance Committee

Governance Committee

Sales and Marketing Committee

Care Management Committee

Membership

Peter Drotch (Chair), Davey Scoon, Robert Spellman, Greg Tranter

Robert Spellman (Chair), Jackie Jenkins-Scott, James McNulty, Davey Scoon

Greg Tranter (Chair), Davey Scoon, Thomas P. O'Neill III, Peter Drotch
Susan Windham-Bannister (Chair), Peter Drotch, Davey Scoon, Robert Spellman

Thomas P. O'Neill III (Chair), James Roosevelt, Jr., Davey Scoon,
Jackie Jenkins-Scott, Greg Tranter

James McNulty (Chair), Thomas P. O'Neill III, Davey Scoon, Susan
Windham-Bannister, Harris Berman, M.D.

Jackie Jenkins-Scott (Chair), James McNulty, Davey Scoon, Susan
Windham-Bannister, Harris Berman, M.D.

OFFICERS

The Company's bylaws indicate the following regarding officers of the Corporation:

The officers of the Corporation shall be a Chief Executive Officer ("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 that 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 bylaws 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, 2011 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 Human Resources and General Counsel
Thomas A. Croswell	Chief Operating Officer
Paul Kasuba	Senior Vice President and Chief Medical Officer
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Brian Pagliaro	Senior Vice President, Sales, Marketing and Client Services
Patricia Trebino	Senior Vice President of Operations, Chief Information Officer
Christina Severin	Senior Vice President
Patricia Blake	Senior Vice President, Senior Products
Roland Price	Treasurer
Cynthia L. Torgersen	Assistant Clerk

Conflict of Interest Procedures

The Company has adopted a Conflict of Interest policy. Board members, senior management, Vice Presidents ("VP"), Assistant Vice Presidents ("AVP"), and Directors 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 board member, member of senior management, VP, AVP, and Director shall promptly update his

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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 Board has determined that the transaction is in the best interest of the organization. Review of the 2011 Board of Directors records identified no conflicts of interest and no financial conflicts of interest.

Corporate Records

Articles of Incorporation and Bylaws

During the exam period, the Company's bylaws were amended as of November 18, 2010. The bylaws were amended to extend the term of the Board Chair for one additional three year term and to revise references from the Nominating Committee to the Governance Committee.

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 bylaws and the laws of the Commonwealth of Massachusetts. Activities of the committees were reported upon at various meetings of the Board.

Disaster Recovery and Business Continuity

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.

Annual Meeting

Per the bylaws, 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 Company's officers, Board officers and Directors and transact such other business as may properly be brought before the Annual Meeting. Per review of the Board meeting minutes, compliance with this requirement was observed for 2011, 2010, and 2009.

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

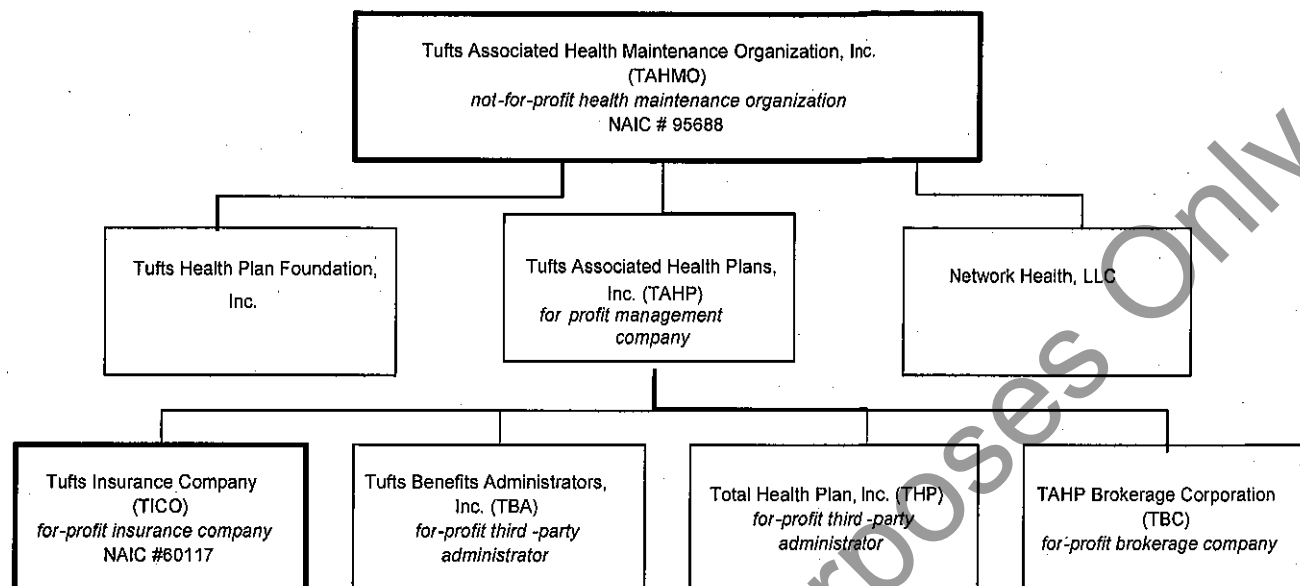
TAHMO contributed capital of \$130 million to Network Health, LLC on October 28, 2011 to purchase the assets and assume the liabilities of Network Health, Inc. on November 1, 2011.

AFFILIATED COMPANIES

Per Form B, as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the MGL. Tufts Associated Health Maintenance Organization, Inc. is the "ultimate controlling person" of the holding company system. A summary of

Tufts Associated Health Maintenance Organization, Inc.

ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2011 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 2011, 2010, and 2009 were \$118.9 million, \$120.3 million, and \$111.2 million, respectively. The terms of the agreement require that these amounts be paid within 30 days. At December 31, 2011, 2010, and 2009, amounts payable from TAHMO to TAHP were \$12.8 million, \$9.2 million, and \$592 thousand, respectively. Balances were settled timely per review of the settlements subsequent to the yearend date.

The Company owns 100% of the outstanding stock of its subsidiary, TAHP. TAHMO contributed capital in the amount of \$20 million, \$20 million, and \$18 million to its subsidiary, TAHP, during 2011, 2010, and 2009 which was used for additional capitalization of TICO. In addition, in 2011, 2010, and 2009 TAHMO contributed capital in the amount of \$20 million, 20 million, and \$10 million to TAHP, which was used for additional capitalization of TBA. At December 31, 2011, 2010, and 2009, the carrying value of TAHMO's investments in its subsidiaries was \$116.8 million and \$8.3 million, and \$9.4 million, respectively. The increase in this balance year over year from 2010 to 2011 is due to the acquisition of NH LLC in 2011 and its resulting carrying value at yearend December 31, 2011.

TICO is a subsidiary of TAHP, which is a wholly owned subsidiary of TAHMO. At December 31, 2011, 2010, and 2009, the net amount receivable from TICO was \$4.3 million, \$1.9 million and \$1.2 million, respectively. At December 31, 2011 and 2010, the net amount payable to TAHP from TICO, including administrative expenses paid by TAHMO, was \$14.8 thousand and \$29.7 thousand, respectively.

TAHMO and THP (a subsidiary of TAHP) have an agreement whereby THP will administer a point of service (POS) plan insured by TAHMO. Administrative fees paid by TAHMO to THP were \$626 thousand, \$878 thousand, and \$1.8 million in 2011, 2010, and 2009, respectively. At December 31, 2011, TAHMO's amounts receivable from THP, including premiums collected by THP, were \$167 thousand. At December 31, 2010,

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TAHMO's amounts payable to THP was \$1.3 million. At December 31, 2009, TAHMO's amounts receivable from THP was \$1.2 million.

TAHMO and TBA (a subsidiary of TAHP) have an agreement whereby TBA administers a preferred provider organization plan (PPO) insured by TAHMO. Administrative fees paid to TBA were \$1.3 million, \$2.0 million, and \$2.9 million in 2011, 2010, 2009, respectively. At December 31, 2011, amounts payable from TAHMO to TBA were \$1.7 million. At December 31, 2010, amounts receivable from TBA to TAHMO were \$4.4 million. At December 31, 2009, amounts payable from TAHMO to TBA were \$3.3 million.

At December 31, 2011, TAHMO had a payable due from the Tufts Health Plan Foundation, Inc. in the amount of \$58 thousand. At December 31, 2010 and 2009, TAHMO had a payable due from the Tufts Health Plan Foundation, Inc of \$26 thousand and \$45 thousand, respectively.

TAHMO Holdings, Inc., a former wholly owned subsidiary of TAHMO, relinquished control of Tufts Health Plan of New England, Inc. (TNE), a former subsidiary of TAHMO Holdings, Inc., to the New Hampshire Department of Insurance in 1999; as of the last exam as of December 31, 2008, TNE was in the process of being liquidated. TAHMO had an agreement with the New Hampshire Department of Insurance, the liquidator of TNE, whereby TAHMO guaranteed the liabilities of TNE to all claimants. As of January 7, 2010 the TNE liquidation process has been completed without a call on the guaranty.

In December 2011, TAHMO contributed additional capital in the amount of \$40 million to its subsidiary NH LLC beyond the initial capitalization amount of \$130 million, which was used for additional capitalization. At December 31, 2011, the amount payable from NH LLC to TAHMO was \$30 thousand.

FIDELITY BOND AND OTHER INSURANCE

The Corporation maintains fidelity bond coverage with an authorized Massachusetts insurer. The aggregate limit of liability is \$10,000,000 which exceeds the NAIC suggested minimum. In addition, 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, 2011.

PENSION AND INSURANCE PLANS

The Corporation offers various insurance plans, including group and family life, dental and health coverage, and long-term disability to all eligible employees. TAHP has a contributory defined contribution (401(k)) plan covering substantially all employees of TAHP and TAHMO. The 401(k) plan is sponsored by TAHP. The TAHMO Board of Directors may, at its discretion, make additional retirement contributions to the plan. Contributions for each employee vest between one and three years of service.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2011 were as follows:

<u>Description of Deposit</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
U.S. Treasury Note	Insolvency Protection	\$4,000,000	\$4,001,918
		<u>\$4,000,000</u>	<u>\$4,001,918</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Corporation is licensed to transact business in the Commonwealth of Massachusetts and the State of Rhode Island.

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

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coverage. To join Tufts Health Plan Medicare Preferred HMO, 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 Commonwealth 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.

Medicaid Plan through Network Health: The Company has a contract through the MassHealth Managed Care Organization with the Massachusetts Executive Office of Health and Human Services (EOHHS) to manage the healthcare of Medicaid members.

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.

RESERVES

PwC Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities ("UCL") as of December 31, 2011. The booked actuarial reserves were found to be within the PwC independently developed range. Furthermore, the methods, assumptions, and amounts of statutory claim reserves as of December 31, 2009, December 31, 2010, and December 31, 2011 established by Company are reasonable.

TAHMO has established accruals for Loss Adjustment Expense ("LAE"), or the cost of administering the unpaid claims. For TAHMO, the LAE provision was determined by applying factors to the unpaid claim reserves. These factors were calculated as the ratio of claims adjustment expenses for the calendar year divided by total paid claims in the calendar year. This calculation was performed separately for each block of products, including Commercial, Medicare Advantage, and Tufts Medicare Complement. The resulting LAE held by TAHMO was equal to approximately 1.3% of the unpaid claim liability. This methodology for determining a

Tufts Associated Health Maintenance Organization, Inc.

provision for LAE appears not unreasonable, and the resulting LAE factor appears reasonable compared to levels of LAE established by similar payers in the market.

Although TAHMO does not have a recorded premium deficiency reserve, PwC Health Actuaries reviewed the methodology and calculations used by the Company to develop these estimates. The methodology and calculation was noted to be reasonable and consistent with methodologies and assumptions observed in the general market. Furthermore, a rate adequacy evaluation was performed and it was noted that the Company's rates were adequate as of December 31, 2011.

Finally, PwC Health Actuaries reviewed the methodology and calculations used by the Company to develop estimates for the medical loss ratio (MLR) rebate accrual and note the Company's methodology and calculations were reasonable and conformed to methodologies and assumptions observed in the general market.

REINSURANCE

TAHMO does not assume any reinsurance and did not purchase stop-loss insurance in 2011, 2010 or 2009.

COMMITMENTS AND CONTINGENCIES

Lease Obligations

TAHMO leases certain office space and equipment under operating lease agreements. Total lease expenses in 2011 and 2010 were \$338 thousand and \$286 thousand, respectively.

The following is a schedule of future minimum annual lease commitments for these operating leases as of December 31, 2011 (000's):

<u>Year ending December 31</u>	<u>Operating Lease</u>
2012	236
2013	218
2014	37
Thereafter	0
Total	\$491

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.

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 unqualified opinions on the December 31, 2011, 2010, and 2009 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 PwC's Process Assurance (PA) 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 2011 Annual Statement. No material exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC as of December 31, 2011:

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Tufts Associated Health Maintenance Organization, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Assets			
Bonds	\$ 209,858,944		\$ 209,858,944
Stocks:			
Preferred stocks	1,716,960		1,716,960
Common stocks	403,777,497		403,777,497
Real estate:			
Properties occupied by the company	90,665,442		90,665,442
Cash, cash equivalents and short-term investments	54,896,426		54,896,426
Other Invested Assets	<u>115,941,520</u>		<u>115,941,520</u>
Subtotals, cash and invested assets	876,856,789		876,856,789
Investment income due and accrued	1,854,694		1,854,694
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	5,299,104		5,299,104
Electronic data processing equipment and software	18,399,705		18,399,705
Receivables from parent, subsidiaries and affiliates	4,541,619		4,541,619
Health care and other amounts receivable	<u>20,845,632</u>		<u>20,845,632</u>
Total Assets	<u>\$ 927,797,543</u>	<u>\$ -</u>	<u>\$ 927,797,543</u>
Liabilities			
Claims unpaid	\$ 266,313,529		\$ 266,313,529
Accrued medical incentive pool and bonus amounts	17,883,051		17,883,051
Unpaid claims adjustment expenses	3,578,698		3,578,698
Aggregate health policy reserves	40,308,270		40,308,270
Premiums received in advance	33,772,849		33,772,849
General expenses due or accrued	24,882,378		24,882,378
Amounts due to parent, subsidiaries and affiliates	<u>8,298,411</u>		<u>8,298,411</u>
Total Liabilities	395,037,186		395,037,186
Capital and Surplus			
Unassigned funds (surplus)	<u>532,760,357</u>		<u>532,760,357</u>
Total Capital and Surplus	<u>532,760,357</u>		<u>532,760,357</u>
Total Liabilities, Capital and Surplus	<u>\$ 927,797,543</u>	<u>\$ -</u>	<u>\$ 927,797,543</u>

Tufts Associated Health Maintenance Organization, Inc.
Statement of Income
For the Year Ended December 31, 2011

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Member Months	4,297,954		4,297,954
Net premium income	\$ 2,536,019,911		\$ 2,536,019,911
Hospital and medical:			
Hospital/medical benefits	1,814,661,694		1,814,661,694
Other professional services	35,552,010		35,552,010
Emergency room and out-of-area	27,460,801		27,460,801
Prescription drugs	263,601,541		263,601,541
Other hospital and medical	13,322,744		13,322,744
Incentive pool, withhold adjustments and bonus amount	27,490,960		27,490,960
Subtotal	<u>2,182,089,750</u>		<u>2,182,089,750</u>
Claims adjustment expenses	80,782,397		80,782,397
General administrative expenses	186,944,083		186,944,083
Total underwriting deductions	<u>2,449,816,230</u>		<u>2,449,816,230</u>
Net underwriting gain	<u>86,203,681</u>		<u>86,203,681</u>
Net investment income earned	18,044,522		18,044,522
Net realized capital gains	4,532,792		4,532,792
Net investment gains	22,577,314		22,577,314
Other income	695,400		695,400
Net income	<u>\$ 109,476,395</u>	<u>\$ -</u>	<u>\$ 109,476,395</u>

Tufts Associated Health Maintenance Organization, Inc.
Capital & Surplus
For the Year Ended December 31, 2011

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2010	\$ 551,704,242		\$ 551,704,242
Net income	109,476,395		109,476,395
Change in net unrealized capital losses less capital gains tax	(26,111,711)		(26,111,711)
Change in non admitted assets	(102,308,569)		(102,308,569)
Net change in capital and surplus	(18,943,885)		(18,943,885)
Capital and Surplus, December 31, 2011	<u>\$ 532,760,357</u>	<u>\$ -</u>	<u>\$ 532,760,357</u>

Tufts Associated Health Maintenance Organization, Inc.
Reconciliation of Capital & Surplus
For the Three Year Period Ended December 31, 2011

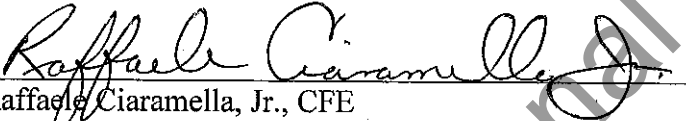
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus, December 31, prior year	\$ 551,704,242	\$ 516,801,110	\$ 446,325,878
Net income	109,476,395	38,359,489	13,842,785
Change in net unrealized capital gains or (losses) less capital gains tax	(26,111,711)	22,996,343	65,836,376
Change in non admitted assets	(102,308,569)	(29,655,499)	(14,647,969)
Aggregate write-ins for gains in surplus	-	3,202,799	-
Cumulative effect of changes in accounting principles	-	-	5,444,040
Net change in capital and surplus	<u>(18,943,885)</u>	<u>34,903,132</u>	<u>70,475,232</u>
Capital and Surplus, December 31, current year	<u>\$ 532,760,357</u>	<u>\$ 551,704,242</u>	<u>\$ 516,801,110</u>

ACKNOWLEDGMENT

This is to certify that the undersigned is a duly qualified Certified Financial Examiner (CFE) and that, in conjunction with PwC 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 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 *NAIC Financial Condition Examiners' Handbook*, the examination standards of the Division and MGL. This participation consisted of involvement in the planning, 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.


Raffaele Ciaramella, Jr., CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance