



**THE 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.*

*Waltham, Massachusetts*

*As of December 31, 2005*

**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**

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JULIANNE M. BOWLER  
COMMISSIONER OF INSURANCE

November 1, 2006

Honorable Julianne M. Bowler  
Secretary, Northeastern Zone, NAIC  
Commissioner of Insurance  
Division of Insurance  
Commonwealth of Massachusetts  
One South Station  
Boston, MA 02110

Honorable Alfred W. Gross  
Chair, Financial Condition (E) Committee, NAIC  
Commissioner, Bureau of Insurance  
Commonwealth of Virginia  
P. O. Box 1157  
Richmond, VA 23218

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 the

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

at its home office located at:

333 Wyman Street  
Waltham, MA 02451

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," "TAHMO," "Tufts Health," "the Plan," or "the Corporation," is as of December 31, 2005, including any material transactions and/or 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 home office in Waltham, Massachusetts. KPMG was engaged to perform certain agreed-upon procedures, which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's 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, 2005. KPMG's Information Risk Management (IRM) 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 IRM 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 National Association of Insurance Commissioners (NAIC) Financial Condition (E) Committee and prescribed by the current *NAIC Financial Condition Examiners Handbook*.

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 Division placed reliance on certain workpapers provided by the Company's external auditors, Ernst & Young, LLP (E&Y). Wherever possible and wherever deemed appropriate and effective, their 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. TAHMO is managed by Tufts Associated Health Plans, Inc. (TAHP), its sole corporate member. TAHP is a for-profit corporation organized to perform certain management, administrative and marketing services for its subsidiaries and affiliates.

### **Organization**

TAHMO has one wholly owned subsidiary, TAHMO Holdings, Inc. (THI). THI has two wholly owned operating subsidiaries, Tufts Benefit Administrators, Inc. (TBA), a Massachusetts corporation which provides administrative services to insured and self-insured groups, and Tufts Insurance Company (TICO). Prior to November 22, 1999, THI

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also held a 100% interest in Tufts Health Plan of New England, Inc. (TNE). On that date, the Company relinquished control of TNE to the New Hampshire Department of Insurance and it is in the process of being liquidated.

During 1996, TICO was licensed in New Hampshire as a for-profit Life, Accident & Health carrier and was a subsidiary of TNE. Pursuant to the court-approved liquidation plan for TNE, all of the outstanding TICO stock was conveyed to THI. During 2003, TICO changed its domicile to Massachusetts. TICO began writing business in 2003.

**Net Worth**

As a nonprofit organization, TAHMO does not have issued capital. Net worth represents the excess of revenues over expenses since inception. The total admitted assets, total liabilities and net worth of the Company from 2003 to 2005 is shown in the following schedule.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Net Worth</u>
2003	\$639,052,382	\$346,542,375	\$292,510,000
2004	\$713,260,935	\$376,172,205	\$337,088,730
2005	\$705,808,470	\$301,405,559	\$404,402,911

**MANAGEMENT AND CORPORATE RECORDS**

**Articles of Organization and Bylaws**

The Company's By-Laws may be altered, amended or repealed by the Board of Directors upon the affirmative vote of not less than two-thirds of the Board of Directors then in office. However, such alteration, amendment or repeal shall be of no force and effect unless and until approved by affirmative vote of at least two-thirds of the Directors of the Sole Member then in office.

**Members and Membership**

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

- The Sole Member of the Corporation shall be TAHP, a Delaware corporation. The Sole Member shall have all of the powers and authority conferred upon members of a corporation organized under Massachusetts General Laws Chapter 180, and shall also have such powers and authority as are conferred upon the Sole Member by the Articles of Organization of the Corporation and by its By-Laws. Notwithstanding anything to the contrary elsewhere in the By-Laws, for so long as the Corporation retains its status as an organization which is exempt from federal income tax under § 501 (c) (4) of the Internal Revenue Code, the Sole Member shall take no action which is inconsistent with the status of the Corporation as an organization which is exempt from federal income tax under § 501 (c) (4) of the Internal Revenue Code.
  - Any action, of whatsoever nature, which is required or permitted to be taken by the Sole Member by law, the Articles of Organization of the Corporation or the By-Laws shall be deemed duly taken upon the adoption of a resolution on behalf of the Sole Member by a duly authorized representative thereof, acting under a general or specific authority of the Board of Directors of the Sole Member, or by such representative's execution of a written consent to action on behalf of the Sole Member and the filing of such consent with the Clerk (\*).
- (\*) The Clerk shall: (a) keep the records of the meetings and consents of the Sole Member, and of the Board's meetings, in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of the By-Laws or as required by law; (c) be custodian of the corporate records and, if the Corporation has a corporate seal, of the seal of the Corporation; and (d) in

general, perform all duties incident to the office of Clerk and all other duties as from time to time may be assigned to him by the Board or the Chairman.

- A representative of the Sole Member shall hold an annual meeting of the Membership (the “Annual Meeting”) each year on the fourth Monday in March (if on a legal holiday, then on the next business day following), or on such later date within one hundred and eighty (180) days after the close of the fiscal year as the Sole Member may determine. The purpose of the Annual Meeting shall be to elect directors and transact such other business as may properly be brought before an annual Membership meeting.
- A representative of the Sole Member may hold special meetings or execute written consents to action in lieu of special meetings at any time in the Sole Member’s discretion.

### **BOARD OF DIRECTORS**

The Company’s By-Laws indicate the following regarding its Board of Directors (the “Board”):

- Property, business and affairs of the Corporation shall be managed by the Board. For the purpose of such management, the Board may exercise all of the powers of the Corporation except such as are conferred upon the Sole Member by law, the Articles of Organization of the Corporation or its By-Laws.
- The Sole Member, at each Annual Meeting, shall determine the number of directors; provided that the Board shall consist of not less than seven (7) and not more than fifteen (15) directors. The directors shall be elected by the Sole Member.
- The Board may include:
  - (a) individuals who are knowledgeable about the management of hospitals or health care systems, have significant managed care experience and currently serve or formerly served as senior executives or Board members of hospitals or health care systems (each such director, a “Hospital Director”);
  - (b) individuals who are practicing physicians with leadership responsibilities for their physician groups and who have significant managed care experience (each such director, a “Physician Director”);
  - (c) individuals who are members of: (1) health plans offered by the Corporation (or its affiliates or subsidiaries) or (2) health plans managed or administered by the Sole Member (each such director, a “Member Director”);
- The Board shall include:
  - (a) at least one director who serves as management of the Corporation (each such Director, a “Management Director”), one of whom shall be the Chief Executive Officer of the Corporation 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 Chief Executive Officer; and
  - (b) at least one additional director elected by the Sole Member from among persons whose knowledge and experience will benefit the Corporation and who is not qualified to be Hospital, Physician or Management Directors (each such director, an “At-Large Director”).
- Other than the Chief Executive Officer of the Corporation and any other Management Director, no person may serve as director for more than four (4) consecutive three (3) year terms; provided that any director who is also a Board officer shall be permitted to serve as director for a fifth consecutive three (3) year term. No person may be elected as director who has reached the age of seventy-one (71) years.
- An annual meeting of the Board shall be held as soon as possible following the annual meeting of the membership. At such annual Board meeting, the Board shall elect the officers and the Board officers of the



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Corporation and transact such other business as may properly be brought before such meeting. Regular meetings of the Board shall be held on such dates as may be designated by the Board in advance, but no less than quarterly. If the annual Board meeting or any regular meeting is not held when scheduled, a special meeting may be held in lieu of such meeting with all the force and effect of such meeting.

- Special meetings of the Board may be called by or at the request of the Chairman of the Board or any two (2) directors. The person(s) who call a special meeting of the Board may fix any place within the Commonwealth of Massachusetts for holding any such meeting.
- Each Non-Management Director shall have one (1) vote. The Management Director designated by the Chief Executive Officer shall be the only Management Director entitled to vote. The number of directors required to constitute a quorum shall be a majority of the directors then in office and entitled to vote (the "Voting Directors"). If a quorum is present, the vote of at least a majority of the Voting Directors present shall be necessary for the Board to take any action, except to the extent that a larger number is required by law, the Articles of Organization of the Corporation or another provision of the By-Laws. If less than a quorum of Directors is present at a meeting, a majority of the Voting Directors present may adjourn the meeting from time to time without further notice.

The Board may not (x) terminate or authorize the termination of any management services agreement or other agreement between the Corporation and TAHP or (y) remove or authorize the removal of the Chief Executive Officer of the Corporation, without the affirmative vote of at least three-fourths (3/4) of all Voting Directors then in office who, in the case of (x), do not have a conflict of interest.

At December 31, 2005, the Board was comprised of eight (8) directors, which is in compliance with the Company By-Laws. Directors duly elected and serving at December 31, 2005, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Principal Occupation</u>	<u>Term Expires</u> <u>June</u>
David S. Green, M.D. Boston, MA	Physician, Self Employed	2008
Victor Hernandez North Reading, MA	Director, Department of Mental Retardation Commonwealth of Massachusetts	2006†
Jackie Jenkins-Scott Brookline, MA	President, Wheelock College	2007
Robert J. Kelly Duxbury, MA	Retired	2006‡
Ilene H. Lang New York, NY	President, Catalyst	2007
Bruce J. Man, M.D. Lunenburg, MA	Physician, Medical Associates Pediatrics	2007
James Roosevelt, Jr., Esq. Cambridge, MA	CEO & President, Tufts Associated Health Plans, Inc.	Ex officio
Davey S. Scoon Kennebunkport, ME	Adjunct Clinical Instructor Tufts University School of Medicine	2008

† Re-elected on June 6, 2006. New Term expires June 2009.

‡ Retired from Board of Directors on June 6, 2006. Succeeded by Peter Drotch, Framingham, MA, Term Expires June 2009.

### *Committees of the Board*

The Board may provide for committees to be elected from and by the Board, and the Board may delegate to any such committee(s) some or all of its powers, except, however, none of the following powers:

- (a) to change the principal office of the Corporation;
- (b) to elect officers and to fill vacancies in any such offices;
- (c) to remove officers from office;
- (d) to take any of the actions described in Section 3.2 (*"Actions Requiring Approval by the Boards of the Corporation and the Sole Member"*) of the Corporate By-Laws; or
- (e) to take any action requiring a vote of three-fourths of the Directors under Section 3.7 (*"Quorum and Voting; Actions Requiring Super-Majority Approval of Board of Directors"*) of the Corporate By-Laws.

Except as otherwise provided in the Articles of Organization, the Board may determine the manner of conducting committee business and the number of committee members required to take specified types of action. The designation of any such committee(s) and the delegation of any authority thereto shall not operate to relieve the Board from any responsibility imposed upon it by law.

The current standing committees of the Board are as follows:

Audit and Compliance Committee  
Investment Committee  
Technology Committee  
Nominating Committee  
Sales/Marketing Committee

In addition, the Board has the following advisory committees:

Member Relations Committee  
Hospital Committee  
Central Physicians Committee  
Corporate Quality Improvement Committee

### **OFFICERS**

The Company's officers consist of a Chief Executive Officer, a President, a Treasurer and a Clerk, each of whom shall be elected by the Board. The Clerk shall be a resident of the Commonwealth of Massachusetts unless the 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 from time to time may be prescribed by the Board. Any person may simultaneously hold more than one office of the Corporation and may simultaneously be a Board officer and an officer of the Corporation.

The officers of the Corporation shall be elected by the Board at its annual meeting. If the election of officers is not held at the Board's annual meeting, the election shall be held as soon thereafter as practicable. Each officer, except the Chief Executive Officer, shall hold office until the annual meeting of the Board next following his election, or any meeting held in place thereof, and until his successor shall have been duly elected and qualified, or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. The Chief Executive Officer shall be appointed at such time and for such term as the Board shall determine.

The elected officers and their respective titles at December 31, 2005<sup>(1)</sup> were as follows:



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**Officer**

James Roosevelt, Jr., Esq.  
Davey Scoon  
Harris A. Berman, M.D.  
David Green, M.D.  
Carol Corcoran  
Lois Dehls Cornell, Esq.  
J. Andy Hilbert  
Allen Hinkle, M.D.  
Jon M. Kingsdale, Ph.D.  
Patricia Trebino  
David Abelman, Esq.  
Maureen Arkle  
Patricia Blake  
Robert Egan  
Patti Embry-Tautenhan  
Aida Magarace Guida  
Joseph Imbimbo  
Marianne Leahy  
Lucinda Lewis  
Richard Lynch  
Anne Metzger  
Brian Pagliaro  
Roland Price

**Principal Occupation**

President and Chief Executive Officer  
Chairman of the Board  
Chairman of the Board Emeritus  
Vice Chairman  
Senior Vice President of Human Resources<sup>(2)</sup>  
Clerk, Vice President, General Counsel and Senior Compliance Officer<sup>(3)</sup>  
Senior Vice President and Chief Financial Officer  
Senior Vice President and Chief Medical Officer  
Senior Vice President, Policy Development<sup>(4)</sup>  
Senior Vice President of Operations and Chief Information Officer  
Assistant Clerk, Assistant Vice President and Deputy General Counsel<sup>(5)</sup>  
Vice President of Operations  
Vice President of Senior Products  
Vice President of Marketing  
Vice President of Communications  
Vice President and Corporate Controller  
Vice President of Technology Operations  
Vice President of Alliances  
Vice President and Chief Actuary  
Vice President of Provider Contracting  
Vice President, Clinical Services  
Vice President of Sales  
Treasurer

**Notes:**

- (1) As of August, 2, 2006, Dan Rome, M.D., is Vice President for Medical Affairs.  
(2) Title changed to Senior Vice President of Human Resources and Diversity as of January 26, 2006.  
(3) Promoted to Senior Vice President, as of January 26, 2006.  
(4) No longer employed by the Company, as of June 2, 2006.  
(5) Promoted to Vice President, as of August 2, 2006.

**CONFLICT OF INTEREST PROCEDURES**

The Company has adopted a conflict of interest policy statement. The Company has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director which is in or is likely to conflict with his/her official duties.

Each Director and each member of each Constituency Committee of the Board shall annually deliver to the Board, at or about the time of the Annual Meeting, a true and complete conflicts of interest statement (a "Conflicts Statement") in the form approved by the Board; provided that each person described above shall deliver only one Conflicts Statement regardless of the number of positions listed above that he or she holds. Each Director and each member of a Constituency Committee shall promptly update his or her most recent Conflicts Statement upon the occurrence of any event that makes the information contained in such Conflicts Statement no longer true or that would be required to be reported in such Conflicts Statement at the time it is delivered to the Board.

The completed Conflict Statements were reviewed, and no discrepancies were noted in the response to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2005 Annual Statement.

### **CORPORATE RECORDS**

#### *Articles of Incorporation and Bylaws*

Our review of the By-Laws and Articles of Incorporation indicated that the By-Laws were amended effective June 13, 2005. No significant changes were made.

#### *Board of Directors Minutes*

The minutes of the Board and committee meetings for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company 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**

None.

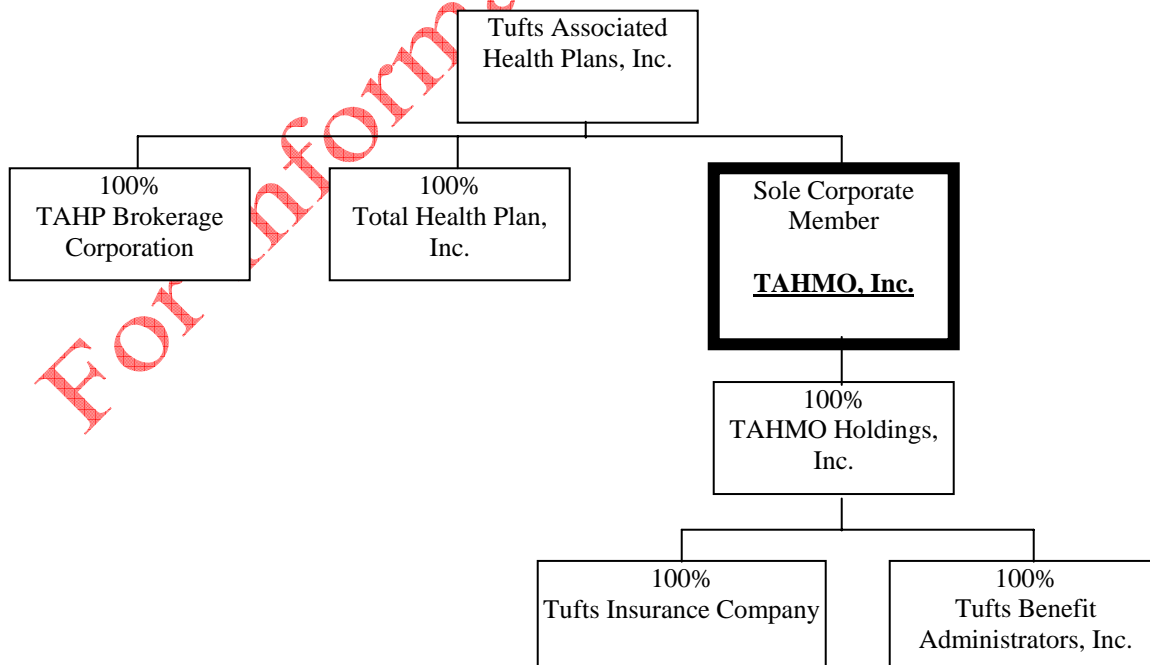
### **MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY**

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 §§ 180M-180Q.

### **AFFILIATED COMPANIES**

#### *Subsidiaries and Affiliated Companies*

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2005 is illustrated below:



### **RELATED PARTY TRANSACTIONS**

The Company contributed capital in the amount of \$10 million to its subsidiary, TAHMO Holdings, Inc. (THI), during 2005. The 2005 contribution was used for additional capitalization of Tufts Benefit Administrators, Inc. (TBA) in connection with its operating losses. There were no capital contributions in 2004. TAHMO contributed capital in the amount of \$14 million to THI during 2003. The 2003 contribution was used for additional capitalization of TICO in connection with the launch of its new product, Liberty by Tufts Health Plan. At December 31, 2005 and 2004, the carrying value of THI's investments in TBA and TICO were \$18.8 million and \$19.8 million, respectively.

Tufts Associated Health Plans, Inc. (TAHP) provides management services to TAHMO for many of TAHMO's administrative needs. The management fee is determined primarily as TAHP's cost plus a markup percentage, which is negotiated annually. The total management fees for 2005 and 2004 were \$124.4 million and \$126.8 million, respectively. At December 31, 2005 and 2004, amounts payable to TAHP were \$5 million and \$300,000, respectively. The terms of the agreement require that these amounts be paid within 30 days.

TAHMO and Total Health Plan, Inc. (THP), a wholly owned subsidiary of TAHP, have an agreement whereby THP will administer a point of service plan insured by TAHMO. Administrative fees paid to THP were \$6.8 million and \$9.6 million for 2005 and 2004, respectively. At December 31, 2005 and 2004, amounts payable to TAHMO from THP including premiums collected by THP were \$5.9 million and \$3.9 million, respectively. The terms of the agreements require that these amounts be paid within 30 days.

TAHMO and TBA have an agreement whereby TBA will administer a preferred provider option plan insured by TAHMO. Administrative fees paid to TBA were \$5.6 million and \$7.8 million for 2005 and 2004, respectively. At December 31, 2005 and 2004, amounts payable to TAHMO from TBA including premiums collected by TBA were \$4.3 million and \$2.2 million, respectively. The terms of the agreements require that these amounts be paid within 30 days.

TAHMO has an agreement with the New Hampshire Department of Insurance, the liquidator of Tufts Health Plan of New England, Inc. (TNE), whereby TAHMO has guaranteed the liabilities of TNE to all claimants. The Company believes this guarantee is adequately reserved at December 31, 2005.

TAHMO does not own any shares in TAHP, its sole corporate member, and does not hold any assets of TAHP or its subsidiaries. The Company owns 100% of the outstanding stock of its subsidiary, THI. The Company recognized an impairment write-down in its investment in THI of \$11.4 and \$7.6 million at December 31, 2005 and 2004, respectively.

### **FIDELITY BOND AND OTHER INSURANCE**

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

In addition to the bond insurance, the Corporation has other insurance purchased from authorized insurers in the form of professional liability and excess professional liability coverage.

### **PENSION AND INSURANCE PLANS**

#### *Employees' Retirement Plan*

The Tufts Health Plans Retirement Plan (the "Plan") is a contributory defined contribution plan pursuant to § 401(k) of the Internal Revenue Code covering substantially all employees of TAHP and its affiliates, including TAHMO. TAHP may match, at its discretion, the participants' eligible contributions and may make additional profit sharing contributions at the discretion of the Board of Directors. Company contributions for each employee vest between one

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and three years of service. TAHMO's allocated share of TAHM's contributions to the Plan was \$804,000 and \$902,000 in 2005 and 2004, respectively.

**SPECIAL DEPOSITS**

The special deposits of the Company at December 31, 2005 are as follows:

<b>Description of Deposit</b>	<b>Where Deposited</b>	<b>Par or Book Value</b>	<b>Statement Value</b>	<b>Market Value</b>
Insolvency Deposit – U.S. Treasury Bond	U.S. Bank, Hartford, CT	\$ 813,000	\$ 805,206	\$ 803,000
Insolvency Deposit – U.S. Treasury Bond	State Street, Boston, MA	<u>4,000,000</u>	<u>3,964,758</u>	<u>3,943,600</u>
<b>TOTAL</b>		<u>\$ 4,813,000</u>	<u>\$ 4,769,964</u>	<u>\$ 4,746,600</u>

**TERRITORY AND PLAN OF OPERATION**

*Territory*

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

*Plan of Operations*

Tufts Associated Health Maintenance Organization is headquartered in Waltham, MA.

TAHMO offers a variety of plan choices, including health maintenance organization (HMO), point-of-service (POS) and preferred provider organization (PPO) plans.

**Commercial Operations:** TAHMO contracts with hospitals and physicians organizations such as Independent Practitioners Association (IPA) and Physicians Hospital Organization (PHO) to provide hospital and medical services to group and individual enrollees. TAHMO pays negotiated fees and/or capitation for services rendered by its contracting providers. Terms of the hospital and physician contracts include withholds and risk sharing agreements (including Pay for Performance Agreements) whereby favorable and unfavorable claims experience and utilization are shared.

**Medicare Operations:** TAHMO participates in a Medicare Advantage contract with the Centers for Medicare and Medicaid Services (CMS) to offer its Medicare Advantage product. TAHMO receives enrollee per-capita payments from CMS to offer a comprehensive benefits package to Medicare eligible subscribers. TAHMO participates with physicians and hospitals for its Medicare product that are generally on a fully capitated basis.

**PRODUCTS**

The Company offers the following insured managed care 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 small copayment for office visits, and need only show his or her Tufts Health Plan 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.

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**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.

**POS (Point of Service)** – Members may choose from two coverage levels—authorized or unauthorized. The authorized level has the same features as an HMO with a PCP providing or arranging the member’s care within the network. Members pay a small copayment for office visits and emergency services. Members can also select their own specialist or hospital through self-referral and be covered at the unauthorized level. Once the member reaches the out-of-pocket maximum for unauthorized services, they are covered nearly 100% for covered services.

**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 more expensive tertiary hospitals in the greater Boston area. These tertiary hospitals include Beth Israel Deaconess Medical Center, Boston Medical Center, Brigham and Women’s Hospital, Boston Children’s Hospital, Dana-Farber Cancer Institute, Lahey Clinic, Mass General Hospital, Massachusetts Eye and Ear Infirmary, New England Baptist Hospital, Tufts-New England Medical Center, Rhode Island Hospital and UMass Memorial Medical Center.

**PPO (Preferred Provider Organization)** – With the PPO, members are not required to select a PCP. Members can receive care from any provider within the Tufts Health Plan network and pay only a copayment. Members can also see any provider outside of the network without a referral, although they will pay a deductible and coinsurance for covered inpatient and outpatient services.

**Tufts Health Plan Medicare Preferred** – A Medicare Advantage product, this plan is available to retirees either on an employer group or individual basis. Members must be enrolled in Medicare Parts A and B. The product is available with or without Medicare Part D prescription drug coverage.

**Tufts 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 Tufts Health Plan’s full provider network. Members must be enrolled in Medicare Parts A and B. The prescription drug benefit is creditable coverage for Medicare Part D.

### **PROVIDER CONTRACTS**

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

For the HMO product, the Company, participating hospitals and physicians are generally parties to risk incentive agreements (including pay-for-performance agreements) whereby favorable and unfavorable claims experience is shared. Payments to participating physicians for medical claims are generally subject to retention by the Company. Distribution of such retention is contingent upon the results of the risk incentive arrangements.

The agreements are in compliance with Massachusetts statutes and regulation 211 CMR § 43.10(1)(C).

### **RESERVES**

In conjunction with KPMG’s examination of the statutory financial statements of TAHMO, KPMG was engaged by the Division to review the adequacy of the Unpaid Claim Liability (UCL) of TAHMO as of December 31, 2005.

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KPMG actuaries prepared independent estimates of the unpaid claim liabilities for December 2005 and prior periods. For December 31, 2005, completion factors for the projection of ultimate incurred claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from KPMG's range of incurred claims estimates. As the TAHMO business pays fairly quickly, the range of estimates for the December 31, 2005 UCL is narrow and KPMG's estimates are similar to TAHMO's estimates with hindsight through June 30, 2006.

Based upon KPMG's review, the Unpaid Claims Liability at December 31, 2005 appears to be fairly stated in aggregate in all material respects. TAHMO made a separate provision for Claim Adjustment Expenses (LAE/CAE) in 2005 in accordance with standard actuarial practice. The resulting expense percentage levels used are within industry norms.

KPMG reviewed TAHMO's premium deficiency reserve calculation and found it to be reasonable. The calculation indicated that no premium deficiency reserves were required as of December 31, 2005.

### **REINSURANCE**

TAHMO does not assume any reinsurance and did not purchase stop-loss insurance in 2005, 2004, and 2003.

### **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 § 43.14. The CPA Firm issued an unqualified opinion on the December 31, 2005 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 IT systems environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Risk Management (IRM) team that evaluated the adequacy of the EDP 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 2005 Annual Statement. No material exceptions were noted.

### **SUBSEQUENT EVENTS**

June 6, 2006 – Victor Hernandez was re-elected as a TAHMO Director, to a three-year term expiring June 2009. Robert J. Kelly retired from the TAHMO Board of Directors; Peter Drotch was elected to replace Robert J. Kelly, serving a three-year term expiring June 2009.

July 18, 2006 – The Company announced that Tufts Health Plan will terminate its joint venture with Destiny Health, Inc., effective December 31, 2006. This agreement involved TICO's Liberty health plan, which was introduced in 2003 and currently covers around 10,000 people in Massachusetts. The Company cited disappointing enrollment targets as a reason for the mutual decision. Current Liberty plan members will be offered the opportunity to switch to another plan offered by Company.



**COMMITMENTS AND CONTINGENCIES**

*Lease Obligations*

The Company leases certain office space and equipment under operating lease agreements. Rental expense was \$11,656,000 and \$11,222,000 for 2005 and 2004, respectively. Minimum annual lease commitments for these operating leases are as follows (*Note*: The Watertown lease expires in January 2018):

2006	\$ 8,207,000
2007	6,139,000
2008	5,445,000
2009	4,977,000
2010	4,948,000
Thereafter	24,738,000

*Legal Proceedings*

The Company is involved in litigation arising in and out of the normal course of business. While the Company is not aware of any actions or allegations which should reasonably give rise to any material adverse effect, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management, after consultation with legal counsel, that the ultimate resolution of these matters will not materially affect its financial position, results of operations or liquidity.

For Information Purposes Only

**FINANCIAL STATEMENTS**

The Financial Statement section includes the following:	<u>Page</u>
Statutory Statement of Assets, Liabilities and Capital & Surplus as of December 31, 2005	17
Analysis of Assets Exhibit as of December 31, 2005	18
Statement of Revenue and Expenses for the Year Ended December 31, 2005	19
Capital & Surplus for the Year Ended December 31, 2005	20

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, 2005.

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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, 2005**

	<b><u>Annual Statement</u></b>	<b><u>Statutory Examination Adjustment</u></b>	<b><u>Per Statutory Examination</u></b>
<b><u>ASSETS</u></b>			
Bonds	\$ 235,946,197	\$ -	\$ 235,946,197
Stocks:			
Preferred stocks	\$ 3,533,252	-	\$ 3,533,252
Common stocks	342,686,764	-	342,686,764
Cash, cash equivalents and short-term investments	95,331,727	-	95,331,727
Receivable for securities	214,105	-	214,105
Subtotals, cash and invested assets	677,712,045	-	677,712,045
Investment income due and accrued	2,986,140	-	2,986,140
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,281,081	-	1,281,081
Electronic data processing equipment and software	10,743,753	-	10,743,753
Receivables from parent, subsidiaries and affiliates	10,203,240	-	10,203,240
Health care and other amounts receivable	2,882,211	-	2,882,211
<b>Total Assets</b>	<b>\$ 705,808,470</b>	<b>\$ -</b>	<b>\$ 705,808,470</b>
<b><u>LIABILITIES</u></b>			
Claims unpaid	\$ 244,356,447	\$ -	\$ 244,356,447
Accrued medical incentive pool and bonus amounts	21,769,459	-	21,769,459
Unpaid claims adjustment expenses	3,688,794	-	3,688,794
Aggregate health policy reserves	2,056,645	-	2,056,645
Premiums received in advance	17,211,377	-	17,211,377
General expenses due or accrued	6,503,528	-	6,503,528
Amounts due to parent, subsidiaries and affiliates	5,443,435	-	5,443,435
Payable for securities	375,874	-	375,874
<b>Total Liabilities</b>	<b>\$ 301,405,559</b>	<b>\$ -</b>	<b>\$ 301,405,559</b>
<b><u>CAPITAL AND SURPLUS</u></b>			
Unassigned funds (surplus)	404,402,911	-	404,402,911
<b>Total Capital and Surplus</b>	<b>404,402,911</b>	<b>-</b>	<b>404,402,911</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 705,808,470</b>	<b>\$ -</b>	<b>\$ 705,808,470</b>

**Commonwealth of Massachusetts Division of Insurance  
REPORT ON THE STATUTORY EXAMINATION OF  
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.**

**Tufts Associated Health Maintenance Organization, Inc.  
Analysis of Assets Exhibit  
As of December 31, 2005**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<b><u>ASSETS</u></b>					
Bonds	\$ 235,946,197	\$ -	\$ 235,946,197	\$ -	\$ 235,946,197
Stocks:					
Preferred stocks	3,533,252	-	3,533,252	-	3,533,252
Common stocks	342,686,764	-	342,686,764	-	342,686,764
Cash, cash equivalents and short-term investments	95,331,727	-	95,331,727	-	95,331,727
Receivable for securities	214,105	-	214,105	-	214,105
Subtotals, cash and invested assets	677,712,045	-	677,712,045	-	677,712,045
Investment income due and accrued	2,986,140	-	2,986,140	-	2,986,140
Premiums and considerations:					
Uncollected premiums and agents' balances in the course of collection	1,281,081	-	1,281,081	-	1,281,081
Electronic data processing equipment and software	15,616,531	4,872,778	10,743,753	-	10,743,753
Furniture and equipment, including health care delivery assets	3,057,914	3,057,914	-	-	-
Receivables from parent, subsidiaries and affiliates	10,203,240	-	10,203,240	-	10,203,240
Health care and other amounts receivable	6,553,757	3,671,546	2,882,211	-	2,882,211
Other assets nonadmitted	9,729,161	9,729,161	-	-	-
<b>Total Assets</b>	<b>\$ 727,139,869</b>	<b>\$ 21,331,399</b>	<b>\$ 705,808,470</b>	<b>\$ -</b>	<b>\$ 705,808,470</b>

**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, 2005**

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Member Months	4,714,719	-	4,714,719
Net premium income	\$1,812,878,300	\$ -	\$1,812,878,300
Total revenues	1,812,878,300	-	1,812,878,300
Hospital and Medical:			
Hospital/medical benefits	1,271,746,823	-	1,271,746,823
Other professional services	36,102,378	-	36,102,378
Emergency room and out-of-area	20,871,878	-	20,871,878
Prescription drugs	198,355,617	-	198,355,617
Other medical	11,852,842	-	11,852,842
Incentive pool, withhold adjustments and bonus amounts	31,924,502	-	31,924,502
Subtotal	1,570,854,040	-	1,570,854,040
Less:			-
Net reinsurance recoveries	-	-	-
Total medical and hospital	1,570,854,040	-	1,570,854,040
Claims adjustment expenses	57,077,400	-	57,077,400
General administrative expenses	141,971,720	-	141,971,720
Total underwriting deductions	1,769,903,160	-	1,769,903,160
Net underwriting gain	42,975,140	-	42,975,140
Net investment income earned	21,373,426	-	21,373,426
Net realized capital gains	10,026,324	-	10,026,324
Net investment gains	31,399,750	-	31,399,750
Net Income	\$ 74,374,890	\$ -	\$ 74,374,890

Commonwealth of Massachusetts Division of Insurance  
**REPORT ON THE STATUTORY EXAMINATION OF**  
**TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.**

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**Tufts Associated Health Maintenance Organization, Inc.**  
**Capital & Surplus**  
**For the Year Ended December 31, 2005**

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2004	\$337,088,730	\$ -	\$337,088,730
Net income or (loss)	74,374,890	-	74,374,890
Net unrealized capital gains and losses	(7,973,959)	-	(7,973,959)
Change in nonadmitted assets	913,250		913,250
Net change in capital and surplus	67,314,181	-	67,314,181
Capital and Surplus, December 31, 2005	<u>\$404,402,911</u>	<u>\$ -</u>	<u>\$404,402,911</u>

For Information Purposes Only



**Commonwealth of Massachusetts Division of Insurance  
REPORT ON THE STATUTORY EXAMINATION OF  
TUFTS ASSOCIATED HEALTH MAINTENANCE ORGANIZATION, INC.**

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**ACKNOWLEDGMENT**

This is to certify that the undersigned is a duly qualified Certified Financial Examiner (CFE) and that, in conjunction with KPMG LLP, applied certain agreed-upon procedures to the accounting and corporate records of the 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 National Association of Insurance Commissioners (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.

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

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