THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Statutory Examination of

Tufts Insurance Company

Waltham, Massachusetts

As of December 31, 2005

NAIC COMPANY CODE: <u>60117</u>

EMPLOYERS ID NUMBER: <u>04-3319729</u>

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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 INSURANCE COMPANY

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 Insurance Company hereinafter referred to as “the Company,” “the Insurance Company,” “the Corporation,” or “TICO,” 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

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, Inc. (TNE), which currently is in liquidation. Under the court-approved Plan of Liquidation for TNE, all of the outstanding TICO stock was conveyed to TAHMO Holdings, Inc. (THI). THI is the 100% stockholder of both TICO and Tufts Benefit Administrators (TBA), a for-profit Massachusetts corporation providing third-party administration services to group members in insured and self-insured preferred provider arrangements. THI is a wholly-owned subsidiary of Tufts Associated Health Maintenance Organization, Inc. (TAHMO), a not-for-profit corporation established for the purpose of arranging for the delivery of health care services, on a prepaid basis, to subscribing individuals and groups. 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 affiliates and subsidiaries. During 2003, TICO was redomesticated to Massachusetts.

Organization

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.

Capital & Surplus

TICO is a wholly-owned for-profit subsidiary of THI. The total admitted assets, total liabilities and capital and surplus of the Company from 2003 to 2005 is shown in the following schedule.

Year	Total Admitted Assets	Total Liabilities	Capital and Surplus
2003	$18,497,686	$2,926,970	$15,570,714
2004	$18,533,280	$3,264,073	$15,269,207
2005	$21,075,983	$5,485,761	$15,590,222

Life/health insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life/health insurance company is to be determined based on the various risk factors related to it. At December 31, 2005, the Company exceeds the RBC requirements.

There are no restrictions on the payment of dividends by the Company to its shareholder except for restrictions relating to minimum statutory capital requirements in the state of Massachusetts. The Company did not declare or pay any dividends in 2005 and 2004.

MANAGEMENT AND CORPORATE RECORDS

Articles of Organization and By-Laws

The Company's By-Laws may be made, amended or repealed and new By-Laws may be adopted by a majority of the stockholders present at any meeting of the stockholders of the Corporation at which a quorum is present, provided that notice of the substance of the proposed amendment is stated in the notice of the meeting. As authorized by the Company's Restated Articles of Organization, the Board of Directors may also make, amend or repeal the By-Laws, in whole or in part, subject to Massachusetts General Laws Chapter 156B and the powers reserved to the stockholders therein, and excepting Articles XI (Indemnification) and XII (Conflicts of Interest) or any other provision thereof which by law, the Articles of Organization, or the Company's By-Laws requires stockholder action. Not later than the time of giving notice of the meeting of stockholders next following the making, amending or repealing by the Directors of any By-Law, notice thereof stating the substance of such change shall be given to all stockholders entitled to vote on amending the By-Laws. Any By-Law adopted by the Directors may be amended or repealed by the stockholders.

Stockholders

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

- Annual and Special Meetings - An annual meeting of the stockholders shall be held on the fourth Monday of March in each year (if on a legal holiday, then on the next business day following), or on such later date within one hundred eighty (180) days after the close of the fiscal year as the Board of Directors may determine. The purpose of this annual meeting shall be to elect a Board of Directors and transact such other business as may properly be brought before such meeting. Special meetings of the stockholders may be called by the President or the directors, and shall be called by the Clerk upon written application of one or more stockholders who hold at least a one-tenth interest in the Company's voting stock.

- Majority Vote - Unless the Articles of Organization otherwise provide, a majority of the shares of the Corporation issued, outstanding and entitled to vote at a meeting represented in person or by proxy shall constitute a quorum at any meeting of stockholders, provided that, if less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice.

- Quorum - If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting shall be the act of the stockholders, unless the vote of a greater number or voting by classes is required by law, the Articles of Organization or the Company's By-Laws. Any election by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote at the election.

- Proportional Share Voting - Stockholders entitled to vote shall have one vote for each share of stock owned by them and a proportionate vote for a fractional share, unless otherwise provided by the Articles of Organization.

- Shareholder Consent - Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consent shall be treated for all purposes as a vote at a meeting.

- Voting Agreements - An agreement between two or more stockholders or between one or more stockholders and one or more other persons, if in writing and signed by the parties thereto, whether or not such parties include all of the stockholders of the Corporation, may provide that the shares held by such stockholders shall be voted under procedures set forth in said agreement.

BOARD OF DIRECTORS

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

- Corporate Powers - The property, business and affairs of the Corporation shall be managed by the Board. In carrying out their responsibilities hereunder, the directors shall have and may exercise all of the powers of the Corporation except such as are conferred upon the stockholders by law, the Articles of Organization or these By-Laws. Notwithstanding anything in the By-Laws to the contrary, none of the following actions by the Board shall be effective without the approval of stockholders:

    (a) Issuance of any capital stock of the Corporation to any person or entity that would result in either THI, a Delaware corporation, or its subsidiaries or affiliates no longer holding the right to vote a majority or more of the outstanding shares authorized to vote;

    (b) Execution of any contract or engagement in any transaction providing for the sale, lease, exchange or other disposition of all or substantially all of the Corporation's property;

    (c) Filing or acquiescence in the filing of any voluntary or involuntary bankruptcy or insolvency proceedings under any federal or state insolvency or bankruptcy laws or the making of an assignment for the benefit of creditors;

    (d) Adoption of a plan of or authorization of a petition for liquidation and/or dissolution of the Corporation;

    (e) Adoption or authorization of a plan and/or agreement of merger or share exchange with any foreign or domestic corporation; and

(f) Amendment, alteration or repeal of the Corporation's Articles of Organization.

- Membership - The Board of Directors shall consist of not less than five (5) and not more than fifteen (15) directors. The number of the directors shall be as determined from time to time by the stockholders and may be reduced or enlarged between meetings of the stockholders by the vote of a majority of the directors then in office. The directors shall be chosen at the annual meeting of the stockholders or at any meeting held in place thereof by such stockholders as have the right to vote thereon, and each shall hold office until the next annual election of directors and until his successor is chosen and qualified or until he sooner dies, resigns, is removed or becomes disqualified. No director need be a stockholder.

- Annual and Special Meetings - The annual meeting of the Board shall be held immediately after the annual meeting of stockholders. Special meetings of the Board may be called by or at the request of the President or any two (2) directors (or one director if there shall be only one).

- Quorum - The number of directors required to constitute a quorum shall be the greater of four (4) and a majority of the directors then in office. If a quorum is present, a majority of the directors present may take any action on behalf of the board except to the extent that a larger number is required by law, the Articles or Organization, or the Company's By-Laws. If less than a quorum of directors are present at any meeting of the Board, a majority of the directors present may adjourn such meeting from time to time without further notice.

- Vacancies - Any vacancy occurring in the Board and any directorship to be filled by reason of an increase in the number of directors may be filled by election at a meeting of the stockholders entitled to vote at the election of such director, or by vote of the Board; provided, however, that the stockholders have the right to replace a successor director elected by the directors. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

- Committees- The Corporation may provide for an executive committee or other committees to be elected from and by the Board, and the directors may delegate to any such committee or committees some or all of their powers, except the power to change the Corporation's principal office, to elect officers and fill officer vacancies, to change the number of directors and fill vacancies on the Board, to remove officers or directors from office, to authorize dividends and distributions to shareholders, to authorize any reacquisition for value of the Corporate stock, or to authorize a merger.

- Directors' Consent - Any action required or permitted to be taken at any meeting of the Board or any committee thereof may be taken without a meeting, if all the directors entitled to vote consent to the action in writing and the written consents are filed with the records of the meetings. Such consents shall be treated for all purposes as a vote at a meeting.

- Resignation and Removal - Any director of the Corporation may resign from office by delivering or causing to be delivered to any officer of the Corporation, or to the Board, a written resignation, which shall take effect upon delivery or at such other time as may be specified therein. Any director may be removed from his office with or without cause by vote of the holders of a majority of the shares entitled to vote in the election of directors, provided that the directors of a class elected by a particular class of shareholders may be removed only by the vote of the holders of a majority of the shares of the particular class of stockholders entitled to vote for the election of such directors. Any Director may be removed from his office for cause by vote of a majority of the Directors then in office. A Director may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him.

At December 31, 2005, the Board was comprised of five (5) 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:

Director	Principal Occupation	Term Expires June
James Roosevelt Jr., Esq. Cambridge, MA	President and Chief Executive Officer, Tufts Associated Health Plans, Inc.	2006
J. Andrew Hilbert Southborough, MA	Senior Vice President and Chief Financial Officer, Tufts Associated Health Plans, Inc.	2006
Davey Scoon Kennebunkport, ME	Adjunct Clinical Instructor Tufts University School of Medicine	2006
Lois Dehls Cornell, Esq. Natick, MA	Senior Vice President, General Counsel and Senior Compliance Officer, Tufts Associated Health Plans, Inc.	2006
Patricia Trebino Needham, MA	Senior Vice President of Operations and Chief Information Officer, Tufts Associated Health Plans, Inc.	2006

Committees of the Board

TICO does not have any standing Committees of the Board.

OFFICERS

The Company's officers shall be a Chief Executive Officer, a President, a Treasurer and a Clerk, each of whom shall be elected by the Board. The Clerk shall be a resident of the Commonwealth of Massachusetts unless the Corporation has appointed a resident agent to receive service of process on its behalf. The Board may appoint such other officers as they deem necessary or appropriate who shall have such authority and shall perform such duties as from time to time may be prescribed by the Board. Any officer may be but none need be a director or shareholder. Any person may simultaneously hold more than one office of the Corporation.

The officers of the Corporation shall be elected annually by the Board at the first meeting of the Board held after each annual meeting of stockholders. If the election of officers is not held at that meeting, the election shall be held as soon thereafter as practicable. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Any officer of the Corporation may resign from office by delivering or causing to be delivered to any other officer of the Corporation, or to the Board, a written resignation, which shall take effect upon being so delivered or at such other time as may be therein specified. The directors may remove any officer elected or appointed by them with or without cause by vote of the majority of directors then in office, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. An officer may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove him. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board for the unexpired portion of the term. Vacancies or new offices may be filled at any meeting of the Board.

The elected officers and their respective titles at December 31, 2005 were as follows:

Officer	Principal Occupation
James Roosevelt, Jr., Esq.	President and Chief Executive Officer
J. Andy Hilbert	Senior Vice President and Chief Financial Officer

Lois Dehls Cornell, Esq.	Clerk, Vice President, General Counsel and Senior Compliance Officer(1)
Lucinda Lewis	Vice President and Chief Actuary
David Abelman, Esq.	Assistant Clerk, Assistant Vice President and Deputy General Counsel(2)
Roland Price	Treasurer

Notes:
(1) Promoted to Senior Vice President, as of January 26, 2006.
(2) 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.

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 August 2, 2006.

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.

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

None.

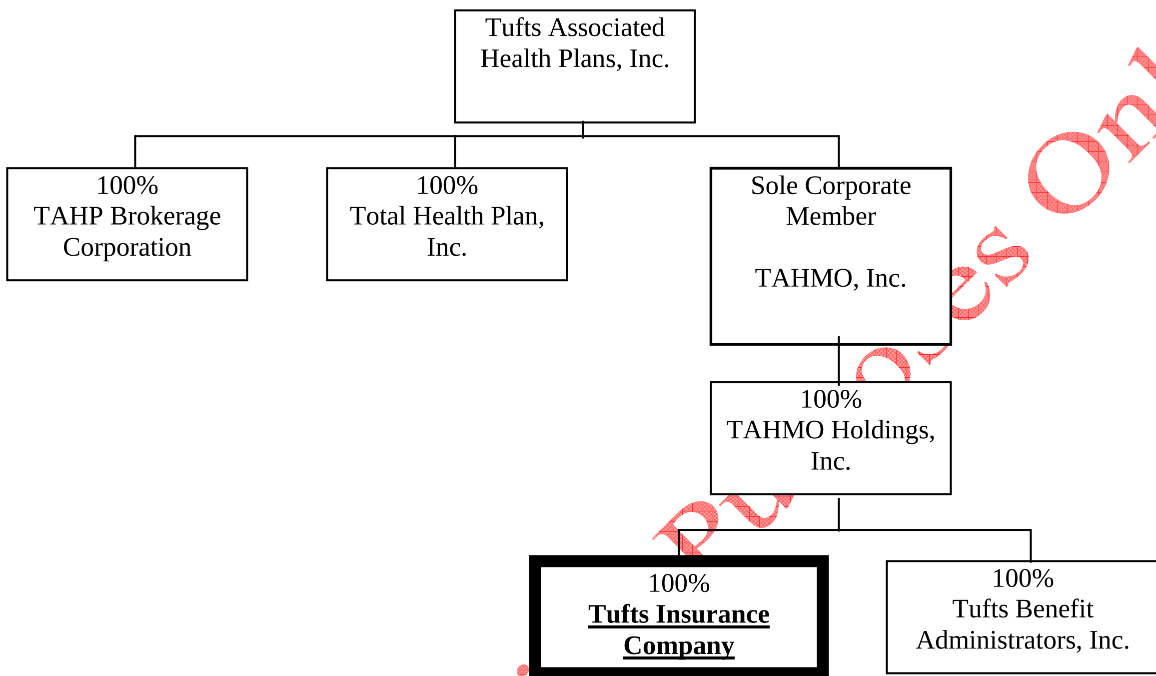
MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

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

At December 31, 2005 and 2004, the net amounts payable to TAHP from the Company, including administrative expenses paid by TAHMO, were approximately $168,000 and $16,000, respectively.

TICO and TBA have an agreement whereby TBA will administer a preferred provider option plan insured by TICO. Administrative fees paid to TBA were $3.1 million and $1.6 million for 2005 and 2004, respectively. At December 31, 2005 and 2004, the net amounts payable to TBA from TICO including the administration fees, claims and premiums collected by TBA were approximately $170,000 and $31,000, respectively. The terms of the agreement require that these amounts be paid within 30 days.

TICO is a subsidiary of THI, which is a wholly-owned subsidiary of TAHMO. At December 31, 2005 and 2004, the net receivable from TAHMO to the Company, including premiums collected by TAHMO, were approximately $493,000 and $1,884,000, respectively.

TICO does not have any guarantees or undertakings, written or otherwise, for the benefit of its parent or affiliates. TICO does not own any shares in THI, its parent, and it does not hold any assets of THI or its other subsidiaries.

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

TICO has no employees.

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. 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 and three years of service.

SPECIAL DEPOSITS

TICO had no special deposits as of December 31, 2005.

TERRITORY AND PLAN OF OPERATION

Territory

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

Plan of Operations

Tufts Insurance Company is headquartered in Waltham, MA.

TICO offers several innovative plan options, including a cost-incentivized PPO plan and a personal medical fund (PMF) PPO plan.

PRODUCTS

The Company offers the following insured managed care products:

Advantage PPO – This product has similar features to the TAHMO PPO plan, with several cost sharing options. One option is coinsurance for all coverage where members pay a deductible on all care and a percentage cost up to a yearly out-of-pocket maximum. Once members reach that threshold, any excess is covered in full by the plan. The member's share of coinsurance may range from 0-20% for in-network care and up to 40% for out-of-network care. The Advantage PPO is also available with copayments on preventive care. This allows employers to set copayments for most in-network preventive care (e.g., office visits and emergency care) and apply deductibles to other services (e.g., diagnostic tests and inpatient care). Out-of-network care with the preventive care option would be subject to a deductible and coinsurance.

Liberty by Tufts Health Plan, powered by Destiny Health – This PPO option product includes an HRA or HSA where the employer deposits contributions in a Personal Medical Fund (PMF), an interest earning account that the member can use to pay for deductibles. When a member's medical expenses exceed the annual deductible, the plan provides comprehensive insurance coverage similar to a PPO. The PMF allows the member to roll over unused amounts to the subsequent year and the member can continue accessing the PMF or cash out the balance if he or she changes employers. Liberty focuses on the Tufts Total Health Care initiative, focusing on health care cost management through member decision-making. This plan also features Vitality by Tufts Health Plan, an incentive program that offers employee wellness programs and rate reductions for healthier member behavior. Tufts Health Plan announced that this plan design administered by Destiny Health will not be available for new business and renewals on and after November 1, 2006. Refer to the Subsequent Events section of this report for more information.

Navigator by Tufts Health Plan – This PPO option includes cost incentives based on member choices. Members seeking care within the Tufts Health Plan network for inpatient care can select a hospital from the Navigator Inpatient Hospital List (covering Massachusetts, Rhode Island and portions of New Hampshire), which groups hospitals into two or three copayment levels based on a quality-cost index. Eligible services are covered 100% after the hospital copayment. Out-of-network inpatient care is subject to a deductible and coinsurance for covered services. In-network outpatient care requires a small copayment, while members pay a deductible and coinsurance for out-of-network outpatient care.

CareLink – This is a national, open-access health plan offered through Tufts Health Plan's alliance with CIGNA HealthCare. CareLink is designed for multi-state employers with 200 or more employees, and offers a national network of over 420,000 physicians and 4,200 hospitals. For in-network outpatient care, only a small copayment applies, while there may be a deductible for inpatient care depending on the plan's features. Out-of-network care requires members to pay a deductible and coinsurance.

PROVIDER CONTRACTS

TICO, as an affiliate of Tufts Associated Health Maintenance Organization, Inc. (TAHMO), has access to the providers under the TAHMO contracts on primarily negotiated fee for service arrangements.

RESERVES

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

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 TICO business pays fairly quickly, the range of estimates for the December 31, 2005 UCL is narrow and KPMG's estimates are similar to TICO's estimates with hindsight through June 30, 2006. KPMG's estimates incorporate the impact of TICO's experience sharing agreement with Destiny Health.

Based upon KPMG's review, the Unpaid Claims Liability at December 31, 2005 appears to be reasonable based on KPMG's hindsight analysis. TICO did not hold a separate liability for Claim Adjustment Expenses (LAE/CAE) in 2005. Per an agreement between TICO and TBA, the liability for these expenses is held by TBA.

KPMG reviewed TICO'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. Given the financial results through June 30, 2006, the company should continue to closely monitor whether or not a premium deficiency reserve is needed going forward.

REINSURANCE

TICO's reinsurance premiums and benefits paid are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. All reinsurance is ceded to a third party reinsurer. Premiums ceded were $11.1 million and $1.3 million in 2005 and 2004, respectively. Accident and health benefits ceded were $5.9 million and $800,000 in 2005 and 2004, respectively.

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 EDP 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 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 2005 Annual Statement. No material exceptions were noted.

SUBSEQUENT EVENTS

July 18, 2006 – The Company reported that Tufts Health Plan will terminate its joint venture with Destiny Health, Inc., effective December 31, 2006. This agreement involved TAHMO'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 product plan offered by the Company.

COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is not currently involved in litigation.

FINANCIAL STATEMENTS

The Financial Statement section includes the following:

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.

Tufts Insurance Company
Statutory Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2005

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
ASSETS			
Cash, cash equivalents and short-term investments	$ 20,367,518	$ -	$ 20,367,518
Subtotals, cash and invested assets	20,367,518	-	20,367,518
Investment Income due and accrued	9,093	-	9,093
Premiums and Considerations:			
Uncollected premiums and agents' balances in the course of collection	71,929	-	71,929
Receivables from parent, subsidiaries and affiliates	493,174	-	493,174
Health care and other amounts receivable	134,269	-	134,269
Total Assets	$ 21,075,983	$ -	$ 21,075,983
LIABILITIES			
Claims unpaid	$ 3,189,464	$ -	$ 3,189,464
Aggregate health policy reserves	59,239	-	59,239
Premiums received in advance	280,322	-	280,322
General expenses due or accrued	1,618,981	-	1,618,981
Amounts due to parent, subsidiaries and affiliates	337,755	-	337,755
Total Liabilities	$ 5,485,761	$ -	$ 5,485,761
CAPITAL AND SURPLUS			
Common capital stock	1,500,000	-	1,500,000
Gross paid in and contributed surplus	$ 19,000,000	$ -	$ 19,000,000
Unassigned funds (surplus)	(4,909,778)	-	(4,909,778)
Total Capital and Surplus	15,590,222	-	15,590,222
Total Liabilities, Capital and Surplus	$ 21,075,983	$ -	$ 21,075,983

Tufts Insurance Company
Analysis of Assets Exhibit
As of December 31, 2005

	Assets	Nonadmitted Assets	Net Admitted Assets	Statutory Examination Adjustment	Per Statutory Examination
ASSETS					
Cash, cash equivalents and short-term investments	20,367,518	-	20,367,518	-	20,367,518
Subtotals, cash and invested assets	20,367,518	-	20,367,518	-	20,367,518
Investment Income due and accrued	9,093		9,093	-	9,093
Premiums and Considerations:					
Uncollected premiums and agents' balances in the course of collection	74,815	2,886	71,929	-	71,929
Receivables from parent, subsidiaries and affiliates	493,174		493,174	-	493,174
Health care and other amounts receivable	164,339	30,070	134,269	-	134,269
Total Assets	$ 21,108,939	$ 32,956	$ 21,075,983	$ -	$ 21,075,983

Tufts Insurance Company
Statement of Revenue and Expenses
For the Year Ended December 31, 2005

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
Member Months	157,278	-	157,278
Net premium income	$ 32,910,349	$ -	$ 32,910,349
Total revenues	32,910,349	-	32,910,349
Hospital and Medical:			
Hospital/medical benefits	28,367,742	-	28,367,742
Prescription drugs	3,626,661	-	3,626,661
Other medical	303,076	-	303,076
Subtotal	32,297,479	-	32,297,479
Less:			-
Net reinsurance recoveries	5,938,588	-	5,938,588
Total medical and hospital	26,358,891	-	26,358,891
Claims adjustment expenses	1,352,591	-	1,352,591
General administrative expenses	5,325,293	-	5,325,293
Total underwriting deductions	33,036,775	-	33,036,775
Net underwriting gain	(126,426)	-	(126,426)
Net investment income earned	533,917	-	533,917
Net investment gains	533,917	-	533,917
Net income before federal income taxes	407,491	-	407,491
Federal and foreign income taxes incurred	53,517	-	53,517
Net Income	$ 353,974	$ -	$ 353,974

Tufts Insurance Company
Capital & Surplus
For the Year Ended December 31, 2005

	Annual Statement	Statutory Examination Adjustment	Per Statutory Examination
Capital and Surplus, December 31, 2004	$ 15,269,204	$ -	$ 15,269,204
Net income or (loss)	353,974	-	353,974
Change in nonadmitted assets	(32,956)	-	(32,956)
Net change in capital and surplus	321,018	-	321,018
Capital and Surplus, December 31, 2005	$ 15,590,222	$ -	$ 15,590,222

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 Insurance Company 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 Insurance Company 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