

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

Division of Insurance

Report on the Statutory Examination of

Tufts Insurance Company

Watertown, Massachusetts

As of December 31, 2008

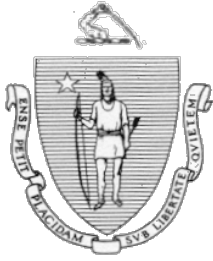
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Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS INSURANCE COMPANY

Table of Contents

SALUTATION	1
SCOPE OF EXAMINATION	2
DESCRIPTION OF COMPANY	2
History	2
Capital and Surplus	3
MANAGEMENT	3
Articles of Organization and By-Laws	3
Stockholders	3
BOARD OF DIRECTORS	4
Committees of the Board	6
OFFICERS	6
CONFLICT OF INTEREST PROCEDURES	7
CORPORATE RECORDS	7
Articles of Incorporation and By-Laws	7
Board of Directors Minutes	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES	7
MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY	7
AFFILIATED COMPANIES	8
RELATED PARTY TRANSACTIONS	8
FIDELITY BOND AND OTHER INSURANCE	8
PENSION AND INSURANCE PLANS	8
SPECIAL DEPOSITS	9
TERRITORY AND PLAN OF OPERATION	9
Territory	9
Plan of Operation	9
PRODUCTS	9
PROVIDER CONTRACTS	10
UNPAID CLAIMS	10
REINSURANCE	11
ACCOUNTS AND RECORDS	11
SUBSEQUENT EVENTS	11
COMMITMENTS AND CONTINGENCIES	12
Legal Proceedings	12
FINANCIAL STATEMENTS	13
Statutory Statement of Assets, Liabilities and Capital and Surplus as of Dec. 31, 2008	14
Statement of Revenue and Expenses for the Year Ended Dec. 31, 2008	15
Capital and Surplus for the Year Ended Dec. 31, 2008	16
Reconciliation of Capital and Surplus for the Three Year Period Ended Dec. 31, 2008	17
ACKNOWLEDGEMENT – Report of Certified Financial Examiner	18



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

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

March 26, 2010

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

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

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

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4,
an examination has been made of the financial condition and affairs of

Tufts Insurance Company

at its main administrative office located at:

705 Mount Auburn Street
Watertown, MA 02472-1508

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

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

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

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

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

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

DESCRIPTION OF COMPANY

History

Tufts Insurance Company (TICO) was licensed in 1996 in New Hampshire as a for-profit Life, Accident & Health carrier and was a subsidiary of Tufts Health Plan of New England (TNE), which was in liquidation as of December 31, 2008. The Company's former subsidiary, TAHMO Holdings, Inc., relinquished control of TNE to the New Hampshire Department of Insurance in 1999. Under the court-approved Plan of Liquidation for TNE, all of the outstanding TICO stock was conveyed in 2001 to TAHMO Holdings, Inc. (THI). During 2003, TICO changed its domicile to Massachusetts. THI was a subsidiary of Tufts Associated Health Maintenance Organization, Inc. (TAHMO), a not-for-profit corporation arranging for the delivery of health care services on a prepaid basis to subscribing individuals and groups, until TAHMO and its affiliated companies underwent a reorganization effective September 1, 2008. The

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS INSURANCE COMPANY

corporate restructuring is discussed below in the Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales section.

Capital and Surplus

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

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2008	\$31,093,799	\$16,087,304	\$15,006,495
2007	25,722,658	9,613,588	16,109,070
2006	18,939,768	8,274,177	10,665,591

The Company received capital contributions from TAHMO of \$10,000,000 and \$5,500,000 in 2007 and 2008, respectively.

MANAGEMENT

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 or on such later date within 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.
- **Quorum and Voting**- 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 without further notice. 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. 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 under the Company's By-Laws, 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 the Company's 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:
 - Issuance of any capital stock of the Corporation to any person or entity that would result in either TAHMO, its subsidiaries or affiliates no longer holding the right to vote a majority or more of the outstanding shares authorized to vote;
 - 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;
 - 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;
 - Adoption of a plan of or authorization of a petition for liquidation and/or dissolution of the Corporation;
 - Adoption or authorization of a plan and/or agreement of merger or share exchange with any foreign or domestic corporation; and
 - 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.

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS INSURANCE COMPANY

- Annual and Special Meetings - The annual meeting of the Board shall be held immediately after and at the same place as the annual meeting of stockholders. Special meetings of the Board may be called by or at the request of the President or any two 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 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 is present at any meeting of the Board, a majority of the Directors present may adjourn such meeting 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 payment of dividends and distributions to shareholders, to authorize any reacquisition for value of the Corporate stock, or to authorize a merger. The Board may create one or more advisory committees and appoint individuals, including members of the Board, to serve on them. The creation of an advisory committee must be approved by majority action of the Directors at a meeting where a quorum is present. Advisory committees may exercise none of the authority of the Board.
- Written 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, 2008, the Board was comprised of five (5) Directors, which is in compliance with the Company's By-Laws. Directors duly elected and serving at December 31, 2008, with addresses and business affiliations, were as follows:

<u>Director</u>	<u>Term Expires</u>	<u>Principal Occupation</u>
James Roosevelt, Jr., Esq. Cambridge, MA	2009 (1)	Chief Executive Officer and President, Tufts Insurance Company
Thomas A. Croswell Lexington, MA	2009 (1)	Chief Operating Officer, Tufts Insurance Company

**Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS INSURANCE COMPANY**

Davey S. Scoon Naples, FL	2009 (1)	Adjunct Clinical Instructor, Tufts University School of Medicine
Lois Dehls Cornell, Esq. Natick, MA	2009 (1)	Senior Vice President of HR and General Counsel, Tufts Insurance Company
Patricia Trebino Needham, MA	2009 (2)	Senior Vice President of Operations, Chief Information Officer, Tufts Insurance Company

(1) Messrs. Roosevelt, Croswell and Scoon and Ms. Cornell were re-elected to serve as TICO Directors until the 2010 annual meeting.
(2) As of the June 17, 2009 annual meeting, Ms. Trebino was replaced as a TICO Director by Umesh Kurpad, Chief Financial Officer of Tufts Insurance Company to serve until the 2010 annual meeting.

Committees of the Board

TICO does not have any standing Committees of the Board.

OFFICERS

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

The Company's principal 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 provided in the Company's By-Laws.

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

<u>Officer</u>	<u>Title</u>
James Roosevelt Jr., Esq.	President and Chief Executive Officer
Lois Dehls Cornell, Esq.	Clerk, Senior Vice President of HR and General Counsel
Umesh Kurpad	Senior Vice President and Chief Financial Officer
Roland Price	Treasurer
David Abelman, Esq.	Vice President, Assistant Clerk and Deputy General Counsel and Senior Compliance Officer
Thomas A. Croswell	Chief Operating Officer

CONFLICT OF INTEREST PROCEDURES

The Company has adopted a Conflict of Interest policy. Each Director and each member of each Board advisory committee shall annually deliver to the Board, at or about the time of the annual meeting, a true and complete conflicts of interest statement in the form approved by the Board. Each Director and each member of a Board advisory committee shall promptly update his or her most recent conflicts of interest statement upon the occurrence of any event that makes the information contained in such conflicts of interest statement no longer true or that would be required to be reported to the Board.

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

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

CORPORATE RECORDS

Articles of Incorporation and By-Laws

The Company's By-Laws were most recently amended as of August 2, 2006. There have been no changes to the Company's By-Laws since the previous examination report was issued.

Board of Directors Minutes

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

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

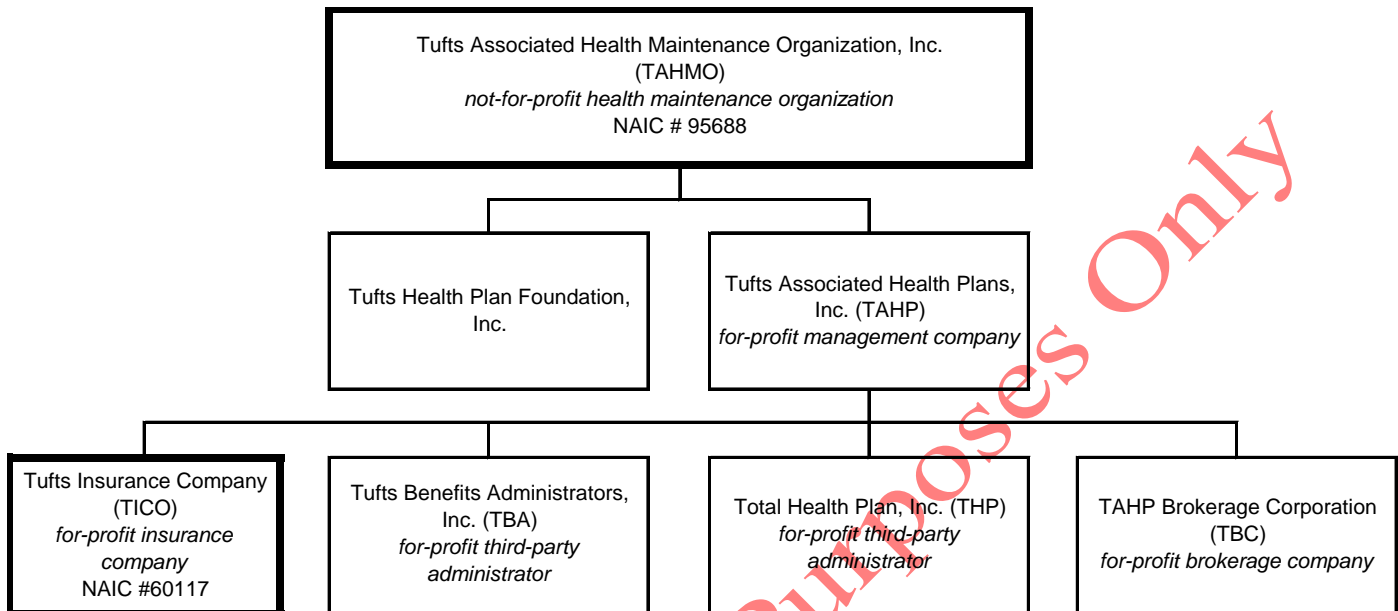
Effective September 1, 2008 following a corporate restructuring TAHMO is the direct parent of Tufts Associated Health Plans, Inc. (TAHP) and the Tufts Health Plan Foundation, Inc., and TAHP has four subsidiaries: TICO, Tufts Benefits Administrators, Inc. (TBA), Total Health Plan, Inc. (THP) and TAHP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

MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

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

AFFILIATED COMPANIES

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



RELATED PARTY TRANSACTIONS

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

TICO and TBA have an agreement whereby TBA administers a preferred provider option plan insured by TICO. Administrative fees paid to TBA were \$5.1 million and \$3.4 million in 2008 and 2007, respectively. At December 31, 2008 and 2007 amounts payable from TICO to TBA were \$0.5 million and \$0.8 million, respectively.

TICO has no employees; rather, TAHP and its affiliates' employees are used to provide administrative services to the Company and the Company's affiliates through intercompany agreements.

FIDELITY BOND AND OTHER INSURANCE

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

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

PENSION AND INSURANCE PLANS

TICO has no employees.

TAHP has a contributory defined contribution (401(k)) plan covering substantially all employees of TAHP and its affiliates. TAHP may match, at its discretion, the participants' eligible contributions and may make additional

Commonwealth of Massachusetts Division of Insurance
Report on the Statutory Examination of
TUFTS INSURANCE COMPANY

retirement contributions at the discretion of the Board of Directors. Contributions for each employee vest between one and three years of service.

SPECIAL DEPOSITS

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

Description of Deposit	Purpose of Deposit	Book Value	Fair Value
U.S. Treasury Note, 3/31/2010 Maturity	Massachusetts – Protection for All Policyholders	\$99,289	\$101,645
		<u>\$99,289</u>	<u>\$101,645</u>

TERRITORY AND PLAN OF OPERATION

Territory

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

Plan of Operation

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

PRODUCTS

The Company offers the following insured products:

PPO (Preferred Provider Organization) – The PPO product is available to employers on a fully insured basis. A Primary Care Physician (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 providers outside of the network without a referral, although they will pay a deductible and coinsurance for covered inpatient and outpatient services.

Advantage PPO – This product has similar features to the PPO described above, with several payment options. A front-end deductible applies to both in-and out-of-network for inpatient hospital care, day surgery, outpatient diagnostic services, and certain other services. For in-network services, once the deductible is satisfied, the plan will pay 100% of eligible charges that are subject to the deductible. For out-of-network services, once the deductible has been satisfied, the plan will pay a percentage of eligible charges that are subject to the deductible, up to a specified out-of-pocket maximum. Once the out-of-pocket maximum has been reached, the plan will pay 100% of eligible charges. 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. The Company also offers an Advantage Saver PPO with similar features and higher deductibles.

Liberty by Tufts Health Plan, powered by Destiny Health – This product was discontinued effective July 1, 2006. Prior to being discontinued, this product deposited employer 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 exceeded the annual deductible, the plan provided comprehensive insurance coverage similar to a PPO. The PMF allowed the

member to roll over unused amounts to the subsequent year and the member could continue to access the PMF or cash out the balance if he or she changed employers. Liberty focused on the Tufts Total Health Care initiative, focusing on health care cost management through member decision-making. This plan also featured Vitality by Tufts Health Plan, an incentive program that offers employee wellness programs and rate reductions for healthier member behavior.

Navigator by Tufts Health Plan – This product is based on the PPO model, but with cost incentives based on member choices. Members seeking care within the network for inpatient care can select a hospital from the Navigator Inpatient Hospital List (covering Massachusetts, Rhode Island and portions of New Hampshire), which is grouped into two copayment levels based on service quality and cost efficiency. Eligible inpatient services are covered 100% in-network 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 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 TICO and TBA's partnership with CIGNA HealthCare. CareLink is designed for multi-state employers with 200 or more employees, and offers a national network of over 400,000 physicians and 4,200 hospitals. For in-network outpatient care, only a copayment usually 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

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

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

UNPAID CLAIMS

KPMG Health Actuaries prepared independent estimates of the Unpaid Claim Liabilities (UCL) as of December 31, 2008 and prior periods. For December 31, 2008, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. As the TICO business pays fairly quickly, the range of estimates for the December 31, 2008 UCL is narrow and the actuarial estimates are similar to TICO's estimates with hindsight through September 30, 2009.

TICO did not make a separate provision for Loss Adjustment Expenses / Claim Adjustment Expenses (LAE/CAE) in 2008. The liability for these expenses is covered under an agreement with TICO's affiliate TBA, which provides third-party administration services, and TICO is not liable for these expenses.

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

The Company's premium deficiency reserve calculation was reviewed and found to be reasonable. The calculation indicated that premium deficiency reserves of \$3.9 million were required as of December 31, 2008.

Rate adequacy for its PPO products continues to be an issue for TICO, and the Company has suffered losses for the past several years, which has continued in 2009. Increased attention should be paid to the pricing methodology for the PPO products. Given the competitive and legislative pressures faced by HMOs, it is likely that rate subsidies provided by the HMO products which are offered by TAHMO will be at lower levels than in the past and may no longer offset the PPO losses.

REINSURANCE

TICO had one reinsurance agreement during the examination period with Destiny Health related to the Company's consumer driven health plan, Liberty by Tufts Health Plan (the Liberty product). In accordance with the initial agreement, TICO reinsured 50% of the premiums, accident, and health benefits, and reserves related to this business. Premiums ceded were \$0 and \$5.1 million in 2008 and 2007, respectively. Accident and health benefits ceded were \$0 and \$5.3 million in 2008 and 2007, respectively.

Effective July 1, 2006, the Company discontinued the Liberty product and terminated the reinsurance agreement. At that date, and in accordance with the termination agreement, the member groups in the Liberty Product were allocated to either TICO or to Destiny Health. As a result, subsequent to July 1, 2006, TICO assumed 100% of all risks and costs related to its allocated block of members.

ACCOUNTS AND RECORDS

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

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

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

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

SUBSEQUENT EVENTS

In the third quarter, 2008 TICO and TAHMO announced plans to formally enter the Rhode Island health plan market and bring additional competition to the state's providers, businesses and consumers. TICO entered the Rhode Island health plan market with its PPO product effective January 1, 2009. TAHMO entered the Rhode Island health plan market with its HMO product effective July 1, 2009. Additional staff was hired to manage the expected increase in membership, and a sales office was opened in Providence, Rhode Island. In 2010, TICO and TAHMO expanded their service areas to include Nantucket and Martha's Vineyard.

On January 7, 2010, TICO's former parent TNE was dissolved by order of the New Hampshire Superior Court.

Effective During October 2009, TICO received a \$5 million capital contribution from its ultimate parent, TAHMO.

COMMITMENTS AND CONTINGENCIES

Legal Proceedings

TICO 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 TICO, the outcome of which is likely to have a material adverse effect upon the statutory financial statements.

For Information Purposes Only

FINANCIAL STATEMENTS

The Financial Statements section includes the following:

	<u>Page</u>
Statutory Statement of Assets, Liabilities and Capital & Surplus as of December 31, 2008	17
Statement of Revenue and Expenses for the Year Ended December 31, 2008	18
Capital & Surplus for the Year Ended December 31, 2008	19
Reconciliation of Capital & Surplus for the Three Year Period Ended December 31, 2008	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, 2008.

For Information Purposes Only

Tufts Insurance Company
Statutory Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2008

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>			
Bonds	\$ 12,673,459	\$ -	\$ 12,673,459
Cash, cash equivalents and short-term investments	13,162,634	-	13,162,634
Subtotals, cash and invested assets	25,836,093	-	25,836,093
Investment income due and accrued	71,725	-	71,725
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	135,392	-	135,392
Receivables from parent, subsidiaries and affiliates	3,326,796	-	3,326,796
Health care and other amounts receivable	1,723,793	-	1,723,793
Total Assets	\$ 31,093,799	\$ -	\$ 31,093,799
<u>LIABILITIES</u>			
Claims unpaid	\$ 9,941,998	\$ -	\$ 9,941,998
Aggregate health policy reserves	3,928,248	-	3,928,248
Premiums received in advance	1,398,686	-	1,398,686
General expenses due or accrued	287,929	-	287,929
Amounts due to parent, subsidiaries and affiliates	530,443	-	530,443
Total Liabilities	\$ 16,087,304	\$ -	\$ 16,087,304
<u>CAPITAL AND SURPLUS</u>			
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000
Gross paid in and contributed surplus	34,500,000	-	34,500,000
Unassigned funds (surplus)	(22,493,505)	-	(22,493,505)
Total Capital and Surplus	\$ 15,006,495	\$ -	\$ 15,006,495
Total Liabilities, Capital and Surplus	\$ 31,093,799	\$ -	\$ 31,093,799

Tufts Insurance Company
Statement of Revenue and Expenses
For the Year Ended December 31, 2008

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Member months	153,058	-	153,058
Net premium income	\$ 55,723,312	\$ -	\$ 55,723,312
Total revenues	55,723,312	-	55,723,312
Hospital and medical:			
Hospital/medical benefits	45,248,652	-	45,248,652
Prescription drugs	7,668,209	-	7,668,209
Other hospital and medical	507,415	-	507,415
Total hospital and medical	53,424,276	-	53,424,276
Claims adjustment expenses	1,313,238	-	1,313,238
General administrative expenses	7,220,034	-	7,220,034
Total underwriting deductions	64,550,894	-	64,550,894
Net underwriting loss	(8,827,582)	-	(8,827,582)
Net investment income earned	729,172	-	729,172
Net realized capital losses	(1,425,280)	-	(1,425,280)
Net investment losses	(696,108)	-	(696,108)
Net income after capital gains tax and before all other federal income taxes	(9,523,690)	-	(9,523,690)
Federal and foreign income taxes incurred	(1,651,647)	-	(1,651,647)
Net loss	\$ (7,872,043)	\$ -	\$ (7,872,043)

Tufts Insurance Company
Capital & Surplus
For the Year Ended December 31, 2008

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2007	\$ 16,109,070	\$ -	\$ 16,109,070
Net income or (loss)	(7,872,043)	-	(7,872,043)
Change in nonadmitted assets	(230,532)		(230,532)
Capital changes			
Paid in	1,500,000		1,500,000
Surplus adjustments			
Paid in	5,500,000		5,500,000
Net change in capital and surplus	<u>(1,102,575)</u>	<u>-</u>	<u>(1,102,575)</u>
Capital and Surplus, December 31, 2008	<u>\$ 15,006,495</u>	<u>\$ -</u>	<u>\$ 15,006,495</u>

Tufts Insurance Company
Reconciliation of Capital & Surplus
For the Three Year Period Ended December 31, 2008

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and Surplus, December 31, prior year	\$ 16,109,070	\$ 10,665,591	\$ 15,590,222
Net income or (loss)	(7,872,043)	(5,140,478)	(4,373,629)
Change in nonadmitted assets	(230,532)	61,809	(28,854)
Change in unauthorized reinsurance	-	522,148	(522,148)
Capital changes	-	-	-
Paid in	1,500,000	-	-
Surplus adjustments	-	-	-
Paid in	5,500,000	10,000,000	-
Net change in capital and surplus	<u>(1,102,575)</u>	<u>5,443,479</u>	<u>(4,924,631)</u>
Capital and Surplus, December 31, current year	<u>\$ 15,006,495</u>	<u>\$ 16,109,070</u>	<u>\$ 10,665,591</u>

ACKNOWLEDGMENT

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