



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Harvard Pilgrim Health Care of Connecticut, Inc. ("the Company") as of December 31, 2016, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S.").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 21, 2018, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 23, 2018, the Company notified the Insurance Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Department.
2. That the Company shall comply with the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director. "

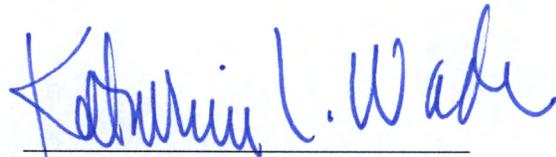
Please address the certification to the Commissioner, but send said certification to the care/attention of Mark Murphy, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting. "

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 31st day of May, 2018.



Katharine L. Wade
Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF THE

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.
(NAIC #15492)

AS OF

DECEMBER 31, 2016

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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May 30, 2018

The Honorable Katharine L. Wade
Commissioner of Insurance
State of Connecticut Insurance Department
153 Market Street,
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made a financial examination of the condition and affairs of

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

(hereafter referred to as the Company), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at Cityplace II, 185 Asylum Street, Hartford, CT. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department), as of December 31, 2016. The current examination, which covers the period from January 1, 2014 to December 31, 2016, was conducted at the statutory home office of the Company. A coordinated financial examination was performed on Harvard Pilgrim Healthcare, Inc., a Massachusetts domiciled insurer with the Massachusetts Department of Insurance (MDI). The Company is a member of the Harvard Pilgrim Health Care, Inc., group of companies (the Group).

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company:

- Board of Director (Board) minutes from 2014 through the latest 2017 meeting;
- Statutory audit reports, completed by the Company's independent certified public accountants, Deloitte & Touche LLP (Deloitte) from 2014 through 2016;
- Management's Discussion and Analysis from 2014 through 2016;
- Statement of Actuarial Opinion from 2014 through 2016;
- Annual Statements from 2014 through 2016; and
- reports from the Company's Internal Audit Department from 2014 through 2016.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as the independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

Work papers prepared by Deloitte, as of December 31, 2016, in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

KPMG US, LLP (KPMG) was engaged by the MDI to conduct an evaluation of the Group's Information Technology (IT) controls and to conduct the actuarial review of the Group.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

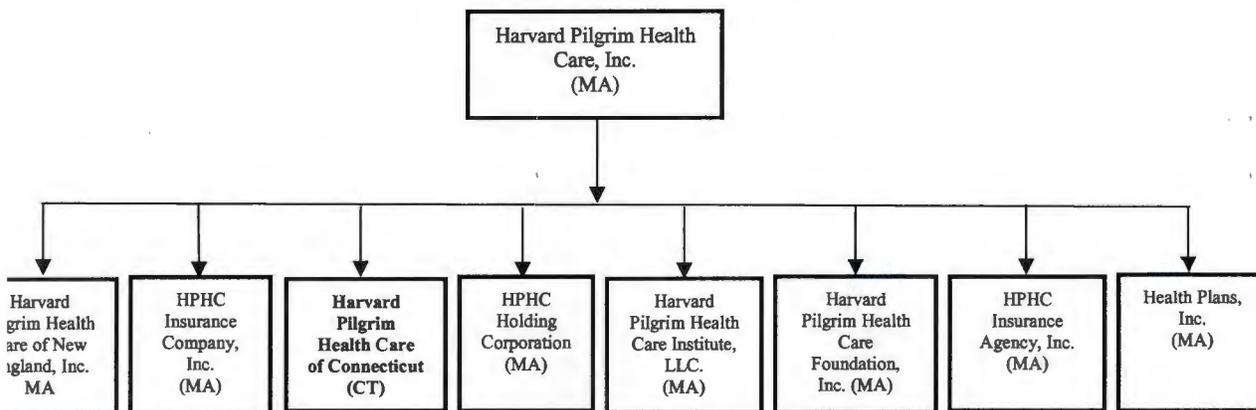
HISTORY

The Company was incorporated in December 4, 2012, and received its Connecticut health center license in April 2014. On July 1, 2014, the Company began writing health insurance policies. The Company's Connecticut plans offer employer Open Access Health Maintenance Organization's (HMOs) and Healthcare Spending Account Plans. The Company operates as a not-for-profit Health Care Center and is a wholly owned subsidiary of Harvard Pilgrim Health Care, Inc. (Harvard Pilgrim).

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

ORGANIZATIONAL CHART

The following is an organizational chart of the Company, its parent and affiliated companies as of December 31, 2016:



MANAGEMENT AND CONTROL

The bylaws of the Company require an annual meeting for the election of directors and for the transaction of such other business as may properly come before the meeting. Special meetings of the members may be called at any time by the Board or the president.

The bylaws provide that the business and affairs of the Company be managed by or under the authority and direction of the Board. The number of directors constituting the entire Board shall be no fewer than eight nor more than twelve.

Directors are elected at the annual meeting and may hold office, for a term of one year, until the next annual meeting of the members and until a successor has been duly elected and qualified. Regular meetings of the Board are held any place and date designated by the Board. Special meetings of the Board may be called by the Chairman, the president or a majority of the directors. One-third of the number of directors shall constitute a quorum for the transaction of business.

Action taken at any meeting of the Board may be taken without a meeting if the action is taken by all members of the Board.

The members of the Board serving the Company at December 31, 2016, were:

<u>Name</u>	<u>Business Affiliation</u>
Eric Schultz	Chairman, Harvard Pilgrim President and Chief Executive Officer

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

Raymond E. Lawrence, DMD	Owner and Dentist, West Hill Family Dental, PC
David W. McFadden, MD	Chairman of Surgery, University of Connecticut
Beth Ann Roberts	Harvard Pilgrim Senior Vice President, Enterprise Sales and Marketing
Michael Sherman, MD	Harvard Pilgrim Senior Vice President, Chief Medical Officer
Paul E. Smith	Self employed Independent Insurance Broker
Karen Young	Harvard Pilgrim Vice President and Chief Inclusion Officer

Committees

Committees appointed by the Board of Harvard Pilgrim are authorized to act as advisory committees to the Company and the subsidiaries of Harvard Pilgrim. The committees of the Board of Harvard Pilgrim are as follows:

- Audit Committee
- Finance Committee
- Human Resources Committee
- Nominating and Governance Committee
- Patient Care Assessment Committee

The officers serving the Company at December 31, 2016, were:

<u>Name</u>	<u>Title</u>
Eric H. Schultz	Chairman, President and Chief Executive Officer
Beth Ann Roberts	Vice President
Jason Madrak	Vice President
Tisa Hughes	Secretary
Charles R. Goheen	Treasurer
Michelle Clayman	Assistant Treasurer

RELATED PARTY AGREEMENTS

Management and Administrative Services Agreement

The Company has no employees. Harvard Pilgrim provides all administrative services to the Company including premium billing and collection, claims payment and operational management. In addition, the agreement provides for an allocation of administrative expenses, including claims adjustment expenses.

Guaranty and Indemnity Agreement

The Company, Harvard Pilgrim and its insurance affiliates, participate in a guaranty and indemnity agreement. Under the terms of the agreement, each company guarantees the payment and performance of the others. In addition, each company is jointly and severally liable for all obligations that may arise out of this agreement.

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

INSURANCE COVERAGE

The Group is covered for employee dishonesty by a commercial crime policy issued by Great American Insurance Company. The limit of liability on the policy exceeds the suggested minimum limits of insurance pursuant to the Handbook.

In addition to fidelity bond insurance, the Group maintains various insurance coverages for their operations.

TERRITORY AND PLAN OF OPERATIONS

Harvard Pilgrim operates solely in the New England region, with the majority of its business concentrated in Massachusetts, Maine, New Hampshire, and Connecticut. The Company is licensed to write business only in Connecticut.

REINSURANCE

The Company carries reinsurance against unexpectedly high medical expense incurred on per member basis. Under a reinsurance agreement that is currently in place, the Company is reimbursed 100% for certain hospital inpatient, outpatient and pharmacy claims in excess of the policy deductible which is \$1.5 million. The maximum recoverable under the reinsurance agreement is \$5 million per member per policy period.

INFORMATION TECHNOLOGY CONTROLS

The MDI engaged KPMG to assist in conducting a review and evaluation of IT controls in accordance with the guidelines and procedures set forth in Exhibit C of the Handbook (Exhibit C). The objectives were achieved through a combination of reviewing the Group's policies and procedures, testing in key areas related to Exhibit C, interviewing the Group's senior IT management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by Deloitte and the Group's internal audit department.

Based upon the risk-based assessment and review, the IT general controls were determined to be effective.

ACCOUNTS AND RECORDS

The Company utilizes the Oracle general ledger system to maintain the financial statements. The Oracle Health Systems is the core system used for underwriting (policyholder management), premium billing and claims. General ledger account balances were reconciled and traced to the amounts reported in the Annual Statement for 2016. Further detail analyses were performed on the individual accounts throughout the examination.

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2016. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$14,105,889		\$14,105,889
Cash, cash equivalents and short-term investments	585,890		585,890
Investment income due and accrued	70,780		70,780
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	49,847		49,847
Accrued retrospective premiums and contracts subject to redetermination	598,807		598,807
Health care and other amounts receivable	18,539		18,539
Aggregate write-ins for other-than-invested assets	311	\$311	
Totals	\$15,430,063	\$311	\$15,429,752

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$250,632
Unpaid claims adjustment expenses	3,864
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	4,967
Premiums received in advance	113,431
General expenses due or accrued	173,188
Amounts due to parent, subsidiaries and affiliates	46,788
Total liabilities	\$592,870
Gross paid in and contributed surplus	19,000,000
Unassigned funds (surplus)	(4,163,118)
Total capital and surplus	\$14,836,882
Total liabilities, capital and surplus	\$15,429,752

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

STATEMENT OF REVENUE AND EXPENSES

UNDERWRITING INCOME	
Member Months	8,884
Net premium income	\$3,860,762
Change in unearned premium reserves and reserve for rate credits	183,838
Total revenues	4,044,600
Hospital/medical benefits	2,229,711
Other professional services	129,964
Outside referrals	242,301
Emergency room and out-of-area	55,750
Prescription drugs	926,159
Subtotal	3,583,885
Total hospital and medical	3,583,885
Claims adjustment expenses, including \$ 79,213 cost containment expenses	166,342
General administrative expenses	1,383,126
Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only	(267,069)
Total underwriting deductions	<u>4,886,284</u>
Net underwriting gain or (loss)	(821,684)
Net investment income earned	277,334
Net realized capital gains (losses)	1,937
Net investment gains (losses)	279,271
Net income or (loss) after capital gains tax and before all other federal income taxes	(542,413)
Federal and foreign income taxes incurred	
Net income (loss)	(542,413)
CAPITAL AND SURPLUS ACCOUNT	
Capital and surplus prior reporting year	15,374,214
Net income or (loss)	(542,413)
Change in nonadmitted assets	5,081
Net change in capital and surplus	(537,332)
Capital and surplus end of the reporting period	<u>\$14,836,882</u>

HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

CLAIMS UNPAID AND UNPAID CLAIM ADJUSTMENT EXPENSES \$254,496

The following items were included in the captioned accounts:

Claims Unpaid	\$250,632
Unpaid Claims Adjustment Expenses	<u>3,864</u>
	<u>\$254,496</u>

The actuarial review was conducted in accordance with the risk focused approach as detailed in the Handbook. KPMG based its review on the following information provided by the Group Company which included but was not limited to:

- the Company's Statements of Actuarial Opinion (SAO) for December 2014 through 2016;
- the Company's actuarial memorandums supporting the SAOs;
- the 2014 through 2016 Annual Statements;
- the 2016 Actuarial Summary Review Memorandum by D&T; and
- other information requested and obtained during the course of the review through emails, discussions and meetings with key personnel of the Company.

KPMG performed an independent calculation in the form of a range on the estimated 2016 unpaid claims reserve for the Group and concluded it was reasonable and within the range calculated. The unpaid claims adjustment expense liability was reviewed via reasonable assessment compared with industry practices and KPMG concluded it was consistent with industry norms. For other balances, KPMG reviewed methodology and assumptions for reasonableness and confirmed any changes were supported.

Based on the review by KPMG and the Department actuary, it was concluded that reported reserves of the Company were reasonable and that the procedures in place to test reserves were actuarially sound.

GROSS PAID IN AND CONTRIBUTED SURPLUS \$19,000,000

In 2014 and 2015, the Company received capital contributions in the amounts of \$16 million and \$3 million respectively, from its parent Harvard Pilgrim.

UNASSIGNED FUNDS (SURPLUS) (\$4,163,118)

During the period under examination, changes in the unassigned surplus account were due to net losses.

CONCLUSION

The results of this examination disclosed that as of December 31, 2016, the Company had admitted assets of \$15,429,752, liabilities of \$592,870, and capital and surplus of \$14,836,882. During the period under examination, admitted assets increased \$1,297,427, liabilities increased \$442,812, and capital and surplus increased \$854,615.

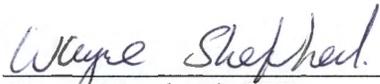
HARVARD PILGRIM HEALTH CARE OF CONNECTICUT, INC.

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Mark Murphy, CFE; Tricia Dave, FSA, MAAA; Chiffon King, AFE; Kenneth Roulier, AFE, CISA, AES; and the professional services firm of KPMG.

I, Wayne Shepherd, CFE, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2016, to the best of my information, knowledge and belief.

Respectfully submitted,



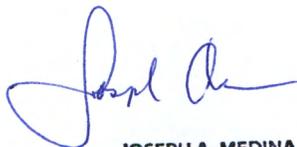
Wayne Shepherd, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut

ss.

County of Hartford

Subscribed and sworn to before me, JOSEPH A. MEDINA
Notary Public on this 17th day of may, 2018.



JOSEPH A. MEDINA
NOTARY PUBLIC
MY COMMISSION EXPIRES Sept. 16, 2020