

Examination Warrant Number 19-00000-95066-R1

Report of Examination of

**Health Partners Plans, Inc.
Philadelphia, Pennsylvania**

As of December 31, 2019

For Informational Purposes Only

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Harrisburg, Pennsylvania
December 17, 2020

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 19-00000-95066-R1, dated July 15, 2019, an examination was made of

Health Partners Plans, Inc., NAIC Code: 95066

a Pennsylvania domiciled single-state, Health Maintenance Organization (“HMO”), hereinafter referred to as the “Company.” The examination was conducted remotely with information provided by the Company from electronic files at the Company’s home office, located at 901 Market Street, Suite 500, Philadelphia, Pennsylvania 19107.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Company, which was last examined as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”).

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be

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other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the certified public accounting firm of KPMG, LLP (“CPA”) has provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was organized on October 14, 1987, licensed by the Department on November 9, 1994 and commenced business on or about November 22, 1994, the date its Certificate of Authority was approved by the Department.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 1554, Health Maintenance Organization.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

As of December 31, 2019, the Company’s total surplus was \$182,263,301, consisting of \$11,082,311 gross paid in and contributed surplus, \$20,251,801 surplus notes, and \$150,929,189 unassigned funds.

As a Health Maintenance Organization (“HMO”), the total minimum net worth required of the Company to engage in the types of business for which it is licensed pursuant to 31 Pa. Code § 301.121(b)(2), is equal to the greater of \$1,000,000, or three months of uncovered health care expenditures for Pennsylvania enrollees as reported on the most recent financial statement filed with the Commissioner. For the fiscal year ending December 31, 2019, the minimum net worth requirement was \$124,577,879. The Company has satisfied the minimum net worth requirements throughout the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system registration statement, in compliance with 40 P.S. § 991.1404. For all years under examination, the annual registration statements have been filed. The Company is a member-owned, non-stock, not-for-profit corporation providing access to healthcare services on a prepaid basis.

As of December 31, 2019, ownership of the Company resides with four member-owner hospitals in Philadelphia. The hospitals are Albert Einstein Medical Center, Temple University Hospital, Episcopal Hospital, and Aria Health. Temple University Hospital and Episcopal

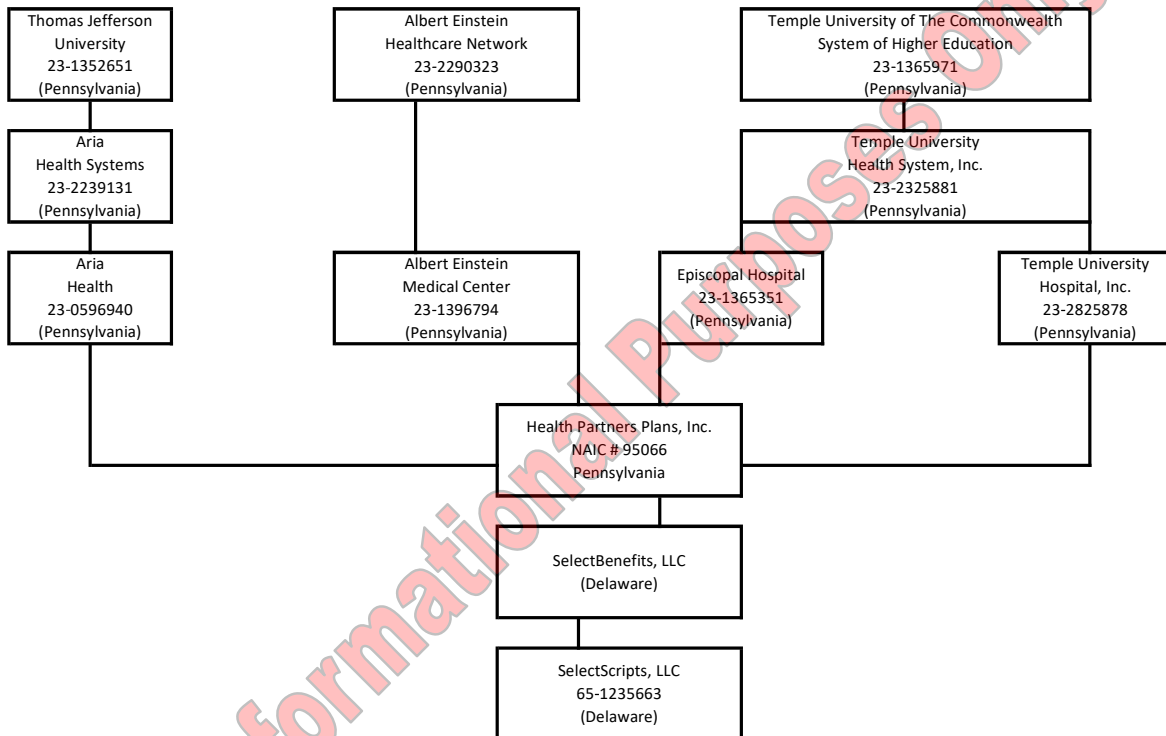
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Hospital are subsidiaries of Temple University Health System and Temple University of The Commonwealth System of Higher Education.

Subsidiaries of the Company are SelectBenefits, LLC and SelectScripts, LLC, neither were active during the examination period.

Ultimate controlling entities of the Company as of December 31, 2019 are Thomas Jefferson University, Albert Einstein Healthcare Network and Temple University of The Commonwealth System of Higher Education.

A simplified organizational chart is shown below:



Each member-owner has one equal vote in the affairs of Health Partners Plans, Inc.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors (“Board”), which was comprised of the following members as of December 31, 2019:

Name and Address	Principal Occupation
Clarence D. Armbrister Philadelphia, Pennsylvania	President Johnson C. Smith University
Cynthia F. Figueroa Philadelphia, Pennsylvania	Commissioner of Human Services City of Philadelphia
Barry R. Freedman Philadelphia, Pennsylvania	President/Chief Executive Officer Albert Einstein Healthcare Network
Loree D. Jones Philadelphia, Pennsylvania	Administrator Rutgers University
Larry R. Kaiser Bryn Mawr, Pennsylvania	President/Chief Executive Officer Temple University Health System
Michael B. Walsh Richboro, Pennsylvania	Chief Financial Officer Aria-Jefferson Health
Herbert P. White Wayne, Pennsylvania	Interim Chief Financial Officer Temple University Health System

All directors are elected at the annual meeting to serve one-year terms. Each of the owner hospitals is entitled to appoint one director and one alternate to serve on the Board. The remaining three directors are community representatives elected by the Board of Directors. In accordance with the Company’s by-laws, all directors are required to sign and comply with a formal conflict of interest policy annually.

Pursuant to 40 P.S. § 1557, the Company, as an HMO, is required to have one-third of the Board of Directors as subscribing members. As of December 31, 2019, Company did not meet the requirements of 40 P.S. § 1557.

It is recommended that the Company have the required one-third subscribing members on its Board of Directors in accordance with 40 P.S. § 1557.

COMMITTEES

As of December 31, 2019, the following committees were appointed by the Board and serving in accordance with the Company’s by-laws:

Audit Committee – Clarence Armbrister, Cynthia Figueroa, Loree Jones

Community Health and Advisory Committee – Cynthia Figueroa

Compensation and Evaluation Committee – Clarence Armbrister, Cynthia Figueroa, Barry Freedman, Loree Jones, Larry Kaiser, Michael Walsh, Herbert White

Finance and Investment Committee – Gerald Blaney, Christopher Snyder, Michael Walsh*, Herbert White

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Nominating and Bylaws Committee – Clarence Armbrister, Barry Freedman, Loree Jones, Michael Walsh, Herbert White

*Michael Walsh was appointed by the Board of Directors, other members of the Finance and Investment Committee were appointed by member-owner hospitals.

OFFICERS

As of December 31, 2019, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Denise M. Napier	President/Chief Executive Officer Assistant Secretary
E. James Hynek, Jr.	Interim Chief Financial Officer Senior Vice President Finance
Barry Volin	Executive Vice President Clinical and Provider Management
Herbert P. White	Secretary
Michael B. Walsh	Treasurer
Barry R. Freedman	Chair
Loree D. Jones	Vice Chair

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The annual meetings of the Company's member-owners were held in compliance with its by-laws.
- The Company's member-owners elected directors at such meetings in compliance with the by-laws.
- The Company's member-owners ratified the prior year's actions of the officers and directors.
- The Company's officers were appointed at the Board's annual organizational meeting.
- Quorums were present at all Board meetings.
- All directors attend Board meetings regularly
- The Company's investment transactions are reviewed by the Company's Investment Subcommittee at least quarterly, transaction approval recommendation is passed onto the

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Finance and Investment Committee, and a summary is provided to the Board at the quarterly meetings. The Board ratifies the investment transactions at least annually.

ARTICLES OF INCORPORATION

There were no changes to the Company's Articles of Incorporation during the examination period.

BY-LAWS

The Company amended Article II of its by-laws to reflect changes in the member-owners on March 16, 2016 and December 18, 2019. As of December 31, 2019, the member-owners were Albert Einstein Medical Center, Episcopal Hospital, Aria-Jefferson Health and Temple University Hospital, Inc.

The Company did not submit the 2016 amended by-laws with the Department nor report the change in its annual statement. The Company correctly reported the by-laws change in its 2019 annual statement.

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements. The following significant agreements were in place during the examination period:

Investment Management Agreement

The Company and Glenmede Investment Management, L.P. are parties to an investment management agreement effective December 21, 2006. The Investment Manager has discretionary authority over the account assets held by the Custodian for investment pursuant to formal investment guidelines provided by the Company. Fees are based on a percentage of the account market value and paid quarterly.

Discretionary Investment Agreement

The Company and Chartwell Investment Partners, L.P. are parties to a discretionary investment adviser agreement effective December 21, 2006. The investment adviser provides specific investment management services to the Company pursuant to a formal agreement. Fees are based on a percentage of the account market value and paid quarterly.

Consulting Agreement

The Company and Citigroup Global Markets, Inc., through its Smith Barney division (currently known as Morgan Stanley), are parties to a consulting agreement. Pursuant to the agreement terms, oversight of Glenmede Investment Management, L.P. and Chartwell Investment Partner, L.P. is provided, and evaluation reports are provided to the Company for a set annual fee.

Loan and Security Agreement

The Company and TD Bank, N.A. are parties to a revolving line of credit agreement effective June 1, 2009, subsequently amended several times with the most recent being August 27, 2019, that is renewed annually and can be drawn upon as necessary. As of December 31, 2019, there was no outstanding balance.

Marketing Organization Agreements

The Company and Gateway Strategies, LLC, dba GS National Insurance, are parties to an agreement effective August 1, 2019 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

The Company and Ritter Health Insurance Marketing are parties to an agreement effective October 1, 2019 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

The Company and HealthMarkets Insurance Agency, Inc. are parties to an agreement effective August 1, 2017 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

The Company and American Senior Health Advisors are parties to an agreement effective October 1, 2019 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

The Company and TNP Insurance Group are parties to an agreement effective October 1, 2019 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

The Company and JHA Management, LLC are parties to an agreement effective September 1, 2019 to facilitate the enrollment of eligible Medicare beneficiaries into the Company's plans in exchange for commissions. The agreement renews annually until terminated.

Lease Agreement – Home Office

The Company leases office space for its home office at 901 Market Street in Philadelphia, Pennsylvania. The agreement dated November 30, 2004, amended several times, expiring in September 2029. The lease includes a free-rent period, scheduled base rent increases over the term of the lease, and certain lease incentives provided by the lessor. The Company reports a deferred rent liability to reflect the excess of rent expense over cash payments since the inception of the lease and the impact of the lease incentives.

Dental Services Agreement

The Company and Avesis Third Party Administrators, Inc. ("Avesis") are parties to an agreement whereby Avesis provides dental services to eligible Medicare Advantage, Medicaid

and CHIP enrollees. Avesis also provides certain delegated services, including quality management, credentialing, dental claims management and utilization management. The agreement includes an automatic renewal provision.

Behavioral Health Services Agreement

The Company and Magellan Behavioral Health, Inc. (“Magellan”) are parties to an agreement whereby Magellan provides certain behavioral health services to eligible Medicare Advantage and CHIP enrollees. Services provided include mental health and substance abuse counseling in addition to certain delegated services such as behavioral health related quality management, credentialing, claims management and utilization management. The agreement includes an automatic renewal provision.

Vision Benefits Administrator Agreement

The Company and Davis Vision, Inc. (“Davis”) are parties to a four-year agreement, effective April 1, 2019, whereby Davis arranges and provides vision services to eligible Medicare Advantage, Medicaid and Children’s Health Insurance Program (“CHIP”) enrollees. The agreement includes an annual renewal provision.

Laboratory Services Agreement

The Company and Quest Diagnostics, Inc. (“Quest”) are parties to an agreement whereby Quest provides clinical laboratory services and testing to eligible Medicare Advantage, Medicaid and CHIP enrollees. The agreement includes an automatic renewal provision.

Physical Therapy Benefits Agreement

The Company and Landmark Healthcare Services, Inc. (“Landmark”) are parties to an agreement whereby Landmark provides prior authorization of physical therapy services for eligible Medicare Advantage, Medicaid and CHIP enrollees. The agreement includes an automatic renewal provision.

REINSURANCE

CEDED

The Company entered into a one-year excess of loss reinsurance agreement with General Security National Insurance Company, an authorized reinsurer, effective January 1, 2019. The Agreement covers the Company’s Medicare, Medicaid and CHIP lines of business.

The Company’s retention and the reinsurance limits per member per agreement period are as follows:

Company’s <u>Retention</u>	Reinsurance <u>Limits</u>	Type of business <u>Covered</u>
\$ 300,000	\$2,000,000	Medicare and CHIP
\$1,000,000	\$2,000,000	Medicaid

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The agreement includes a 90 percent coinsurance clause on defined costs exceeding \$1,000,000 for Medicaid and \$300,000 for Medicare and CHIP beneficiaries, a retained corridor provision and a carry forward provision. The agreement contains appropriate insolvency and arbitration clauses and transfers risk pursuant to the requirements of SSAP No. 61R.

The Company reported \$2,568,188 for reinsurance recoverable at December 31, 2019.

ASSUMED

The Company did not assume insurance at any time during the examination period.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the Commonwealth of Pennsylvania to provide Medicaid, Medicare Advantage and CHIP services to eligible enrollees.

The Company provides benefits to enrolled Medicaid recipients residing in the HealthChoices program South East Zone consisting of Philadelphia and four surrounding counties – Bucks, Chester, Delaware, and Montgomery. The Company provides benefits to enrolled CHIP recipients residing in Philadelphia, Bucks, Chester, Delaware and Montgomery counties. The Company provides benefits to enrolled Medicare members residing in Philadelphia and surrounding counties – Bucks, Chester, Delaware, Lancaster, Lehigh and Northampton.

Medical services are provided by member-owner hospitals and affiliates, local medical and teaching schools, and community hospitals pursuant to formal agreements. The member-owner hospitals are financially at risk for the costs of providing defined medical care to members.

Medicare

The Company provides comprehensive health insurance to eligible members through its Medicare Advantage program and products through a contract with Centers for Medicare and Medicaid Services.

Medicaid

The Company provides physical and certain behavioral Medical Assistance (“MA”) Program benefits to enrolled MA recipients through its HealthChoices Medicaid Program pursuant to an agreement with the Department of Human Services of the Commonwealth of Pennsylvania (“DHS”).

Children’s Health Insurance Program (CHIP)

The Company provides comprehensive health insurance through its KidZPartners program to eligible uninsured children and teens up to age 19 pursuant to an agreement with DHS.

The Company markets its business through Marketing Organizations and internal agents. DHS does not permit the Company to advertise or promote Medicaid products.

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The Company's premium writings, as of December 31, 2019, are summarized in the following chart:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium
December 31, 2019			
Comprehensive (hospital and medical)	\$ 23,891,582	\$ 61,180	\$ 23,830,402
Title XVIII - Medicare	259,400,684	1,376,414	258,024,270
Title XIX - Medicaid	1,496,391,719	3,106,605	1,493,285,114
Health subtotal	<u>1,779,683,985</u>	<u>4,544,199</u>	<u>1,775,139,786</u>
Totals	<u>\$ 1,779,683,985</u>	<u>\$ 4,544,199</u>	<u>\$ 1,775,139,786</u>

Since the prior examination, the Company's net premiums written have increased by \$865.4 million, approximately 95%. No lines of business are showing significant adverse experience.

SIGNIFICANT OPERATING TRENDS

The following table indicates the changes in key financial statement balances of the Company during the period covered by this examination:

	2019	2018	2017	2016	2015
Admitted Assets	\$ 640,329,726	\$ 556,676,106	\$ 579,172,134	\$ 620,655,785	\$ 469,878,656
Liabilities	\$ 458,066,425	\$ 397,364,226	\$ 440,366,226	\$ 493,855,890	\$ 372,987,508
Capital and Surplus Funds	\$ 182,263,301	\$ 159,311,881	\$ 138,805,908	\$ 126,799,894	\$ 96,891,150
Net Premium Income	\$ 1,775,139,785	\$ 1,958,022,421	\$ 1,943,546,443	\$ 1,982,554,861	\$ 1,502,933,858
Benefits to Members	\$ 1,388,113,411	\$ 1,597,190,162	\$ 1,660,693,342	\$ 1,536,128,592	\$ 1,275,913,335
Net Investment Income	\$ 9,096,677	\$ 7,270,833	\$ 3,047,021	\$ 1,732,463	\$ 1,975,028
Net Income	\$ 23,531,639	\$ 20,237,807	\$ 11,040,471	\$ 27,318,376	\$ 0

The Company reported positive net income in four out of the five-years under examination.

PENDING LITIGATION

As of December 31, 2019, the Company is subject to litigation arising in the normal course of business. As of the date of this examination report, the Company is not a party to any material litigation or arbitration, which will, in the opinion of Company management, have a material adverse effect on the Company's surplus.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2019, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus;
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2019	2018	2017	2016	2015
Bonds	\$ 108,521,412	\$ 103,847,926	\$ 96,812,132	\$ 99,494,746	\$ 94,564,357
Cash, cash equivalents and short-term investments	372,260,591	282,413,361	299,181,677	488,516,993	178,353,622
Subtotal, cash and invested assets	<u>480,782,003</u>	<u>386,261,287</u>	<u>395,993,809</u>	<u>588,011,739</u>	<u>272,917,979</u>
Investment income due and accrued	1,353,417	1,410,000	1,093,930	727,450	750,312
Premiums and considerations	139,085,908	149,407,600	161,028,894	21,805,231	178,098,779
Amounts recoverable from reinsurers	2,568,188	0	4,120,999	1,498,493	169,095
Electronic data processing equipment and software	2,710,604	2,881,469	2,918,174	2,323,204	2,569,886
Receivable from parent, subsidiaries and affiliates	0	2,119,909	474,984	562,809	8,510,404
Health care and other amounts receivable	12,468,259	14,470,841	13,541,344	4,445,536	5,896,740
Aggregate write-ins for other than invested assets	1,361,347	125,000	0	1,281,323	965,461
Total	<u>\$ 640,329,726</u>	<u>\$ 556,676,106</u>	<u>\$ 579,172,134</u>	<u>\$ 620,655,785</u>	<u>\$ 469,878,656</u>
Claims unpaid	\$ 125,739,332	\$ 157,863,836	\$ 173,497,248	\$ 160,937,370	\$ 121,568,697
Unpaid claims adjustment expenses	5,473,892	6,826,868	7,464,483	7,422,406	5,643,874
Aggregate health policy reserves	74,731,069	70,458,565	83,273,080	101,972,599	6,174,000
Aggregate health claim reserves	5,524,298	5,318,472	5,254,179	5,182,687	31,825,859
General expenses due or accrued	14,900,415	16,040,651	10,823,655	7,986,775	8,893,203
Amounts due to parent, subsidiaries and affiliates	40,103,995	15,761,424	22,635,752	12,810,836	2,423,073
Liability for amounts held under uninsured plans	8,421,258	12,032,079	13,627,792	7,261,470	0
Aggregate write-ins for other liabilities	183,172,166	113,062,331	123,790,037	190,281,747	196,458,802
Total liabilities	<u>458,066,425</u>	<u>397,364,226</u>	<u>440,366,226</u>	<u>493,855,890</u>	<u>372,987,508</u>
Gross paid in and contributed surplus	11,082,311	11,082,311	11,082,311	11,082,311	8,591,883
Surplus notes	20,251,801	20,251,801	20,251,801	20,251,801	20,251,801
Unassigned funds (surplus)	150,929,189	127,977,769	107,471,796	95,465,782	68,047,466
Total capital and surplus	<u>182,263,301</u>	<u>159,311,881</u>	<u>138,805,908</u>	<u>126,799,894</u>	<u>96,891,150</u>
Totals	<u>\$ 640,329,726</u>	<u>\$ 556,676,107</u>	<u>\$ 579,172,134</u>	<u>\$ 620,655,784</u>	<u>\$ 469,878,656</u>

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Comparative Statement of Income For the Year Ended December 31,

	2019	2018	2017	2016	2015
Net premium income	\$ 1,775,139,785	\$ 1,958,022,421	\$ 1,943,546,443	\$ 1,982,554,861	\$ 1,502,933,858
Change in unearned premium reserves and reserve for rate credits	0	(1,778,485)	0	(65,589,666)	0
Total revenues	<u>1,775,139,785</u>	<u>1,956,243,936</u>	<u>1,943,546,443</u>	<u>1,916,965,195</u>	<u>1,502,933,858</u>
Hospital/medical benefits	341,010,688	418,988,981	412,201,056	411,931,698	350,181,324
Other professional services	429,449,231	492,306,620	500,800,218	477,079,382	399,487,182
Emergency room and out-of-area	96,471,858	105,159,513	112,695,266	95,355,556	79,033,253
Prescription drugs	325,468,523	413,972,016	468,710,020	433,045,408	350,447,595
Aggregate write-ins for other hospital and medical	107,834,411	123,158,721	121,856,042	100,381,186	86,894,179
Incentive pool, withhold adjustments and bonus amounts	87,878,700	43,604,311	44,430,740	18,335,362	9,869,802
Subtotal (hospital and medical)	<u>1,388,113,411</u>	<u>1,597,190,162</u>	<u>1,660,693,342</u>	<u>1,536,128,592</u>	<u>1,275,913,335</u>
Net reinsurance recoveries	5,591,666	1,366,891	89,533,132	90,042,805	90,756,683
Total hospital and medical	<u>1,382,521,745</u>	<u>1,595,823,271</u>	<u>1,571,160,210</u>	<u>1,446,085,787</u>	<u>1,185,156,652</u>
Claims adjustment expenses, including cost containment expenses	28,905,561	31,044,697	27,524,509	23,154,949	18,247,099
General administrative expenses	350,202,067	330,438,426	322,413,094	428,785,184	301,901,569
Increase in reserves for life accident and health contracts	0	(14,593,000)	14,593,000	(6,174,000)	0
Total underwriting deductions	<u>1,761,629,373</u>	<u>1,942,713,394</u>	<u>1,935,690,813</u>	<u>1,891,851,920</u>	<u>1,505,305,320</u>
Net underwriting gain or (loss)	<u>13,510,412</u>	<u>13,530,542</u>	<u>7,855,630</u>	<u>25,113,275</u>	<u>(2,371,462)</u>
Net investment income earned	9,096,677	7,270,833	3,047,021	1,732,463	1,975,028
Net realized capital gains or (losses)	924,550	(563,568)	137,820	472,638	396,434
Net investment gains or (losses)	<u>10,021,227</u>	<u>6,707,265</u>	<u>3,184,841</u>	<u>2,205,101</u>	<u>2,371,462</u>
Net income (loss)	<u>\$ 23,531,639</u>	<u>\$ 20,237,807</u>	<u>\$ 11,040,471</u>	<u>\$ 27,318,376</u>	<u>\$ 0</u>

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**Comparative Statement of Capital and Surplus
For the Year Ended December 31,**

	2019	2018	2017	2016	2015
Capital and surplus, December 31, previous year	\$ 159,311,881	\$ 138,805,908	\$ 126,799,894	\$ 96,891,150	\$ 79,193,618
Net income or (loss)	23,531,639	20,237,807	11,040,471	27,318,376	0
Change in nonadmitted assets	(580,219)	268,166	965,543	99,940	(2,554,269)
Change in surplus notes	0	0	0	0	20,251,801
Surplus adjustments:					
Paid in	0	0	0	2,490,428	0
Net change in capital and surplus	<u>22,951,420</u>	<u>20,505,973</u>	<u>12,006,014</u>	<u>29,908,744</u>	<u>17,697,532</u>
Capital and surplus, December 31, current year	<u>\$ 182,263,301</u>	<u>\$ 159,311,881</u>	<u>\$ 138,805,908</u>	<u>\$ 126,799,894</u>	<u>\$ 96,891,150</u>

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**Comparative Statement of Cash Flow
For the Year Ended December 31,**

	2019	2018	2017	2016	2015
Cash from Operations					
Premiums collected net of reinsurance	\$ 1,785,461,477	\$ 1,967,865,230	\$ 1,804,322,780	\$ 2,073,258,743	\$ 1,455,547,542
Net investment income	9,551,167	7,313,318	3,630,998	2,591,661	2,987,901
Total	<u>1,795,012,644</u>	<u>1,975,178,548</u>	<u>1,807,953,778</u>	<u>2,075,850,404</u>	<u>1,458,535,443</u>
Benefit and loss related payments	1,415,697,322	1,623,248,731	1,582,538,274	1,328,399,879	1,115,068,350
Commissions, expenses paid and aggregate write-ins for deductions	285,287,559	360,651,509	416,829,793	593,112,047	246,070,828
Total deductions	<u>1,700,984,881</u>	<u>1,983,900,240</u>	<u>1,999,368,067</u>	<u>1,921,511,926</u>	<u>1,361,139,178</u>
Net cash from operations	<u>94,027,763</u>	<u>(8,721,692)</u>	<u>(191,414,289)</u>	<u>154,338,478</u>	<u>97,396,265</u>
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	57,337,885	58,911,384	34,515,069	61,620,070	83,793,651
Total investment proceeds	<u>57,337,885</u>	<u>58,911,384</u>	<u>34,515,069</u>	<u>61,620,070</u>	<u>83,793,651</u>
Cost of investments acquired (long-term only):					
Bonds	61,502,358	66,876,407	32,356,196	66,915,110	84,578,095
Total investments acquired	<u>61,502,358</u>	<u>66,876,407</u>	<u>32,356,196</u>	<u>66,915,110</u>	<u>84,578,095</u>
Net cash from investments	<u>(4,164,473)</u>	<u>(7,965,023)</u>	<u>2,158,873</u>	<u>(5,295,040)</u>	<u>(784,444)</u>
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Surplus notes, capital notes	0	0	0	0	20,251,801
Capital and paid in surplus, less treasury stock	0	0	0	2,490,428	0
Borrowed funds	0	1,600,000	0	159,000,000	114,000,000
Other cash provided or (applied)	(16,061)	(1,681,601)	(79,900)	(370,499)	(114,258,536)
Net cash from financing and miscellaneous sources	<u>(16,061)</u>	<u>(81,601)</u>	<u>(79,900)</u>	<u>161,119,929</u>	<u>19,993,265</u>
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	89,847,229	(16,768,316)	(189,335,316)	310,163,367	116,605,086
Cash and short-term investments:					
Beginning of the year	282,413,361	299,181,677	488,516,993	178,353,626	61,748,540
End of the year	<u>\$ 372,260,590</u>	<u>\$ 282,413,361</u>	<u>\$ 299,181,677</u>	<u>\$ 488,516,993</u>	<u>\$ 178,353,626</u>

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SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2019, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 108,521,412	22.6%
Cash	370,816,111	77.1%
Short-term investments	1,444,479	0.3%
Totals	<u>\$ 480,782,002</u>	<u>100.0%</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 109,965,886	100.0%
Totals	<u>\$ 109,965,886</u>	<u>100.0%</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 15,950,344	14.5%
2 to 5 years	37,615,775	34.2%
6 to 10 years	36,191,347	32.9%
11 to 20 years	8,048,777	7.3%
over 20 years	12,159,643	11.1%
Totals	<u>\$ 109,965,886</u>	<u>100.0%</u>

The Company and First State Trust Company entered into a custodial agreement effective July 17, 2014. The agreement was subsequently amended August 11, 2016 to include the required clauses for compliance with Pa. 31 § 148a.3.

The examination team noted that the amended custodial agreement was not authorized by a resolution of either the insurer's Board of Directors or an authorized committee of its board of directors in accordance with PA 31 § 148a.3(a)(2) during the examination period. Prior to the end of fieldwork, the amended agreement was reviewed by the Investment Subcommittee and was subsequently approved by the Board of Directors.

The Company has a written investment policy as required by 40 P.S. § 504.1(c). The investment policy, approved December 16, 2015, was not being reviewed and approved on an annual basis by the Board in accordance with 40 P.S. § 504.1(c). The Company was following its investment policy at December 31, 2019.

Prior to the end of examination fieldwork, the Company's investment policy was reviewed by the Finance and Investment Committee and was subsequently approved and adopted by the Board of Directors.

LIABILITIES

CLAIM RESERVES

As of December 31, 2019, the Company reported claims unpaid of \$125,739,332, unpaid claims adjustment expenses of \$5,473,892, aggregate health policy reserves of \$74,731,069 and aggregate health claim reserves of \$5,524,298.

Michael J. Cellini, FCA, ASA, MAAA, Senior Manager and Consulting Actuary at Ernst & Young, LLP, served as the Company's Appointed Actuary. The Appointed Actuary has reviewed and certified the Company's reserves for all years under examination. The Appointed Actuary relies on the Company's Director of Actuarial Services for the accuracy of data reviewed and on management's representation of the collectability of the reinsurance recoverable reported in the Annual Statement.

During the examination planning, the examination actuaries communicated with the Appointed Actuary and the Company's Director of Actuarial Services, reviewed the annual Actuarial Opinion and supporting Actuarial Memorandum for 2018 and 2019 certifying the Company's reserves, reviewed the Company's Actuarial Closing Package, conducted interviews of those responsible for the Company's reserving process, and reviewed the Company's external CPA audit workpapers for 2019 to gain a thorough understanding of the Company's reserving process.

The examining actuary and the financial examiners coordinated during the examination to identify risks and mitigating strategies related to the Company's reserving activities. Detail testing was performed to address those risks that were not assessed as low inherent risk.

Examining actuary concluded the Company's 2019 Actuarial Opinion and Memorandum were prepared in accordance with statutory requirements, the actuaries providing services to the Company are qualified to perform actuarial determinations, and the Company has established reasonable methodologies and processes to ensure the total reserves and liabilities are adequate. There were no changes in the Company's reserving methodology since the prior examination.

SUBSEQUENT EVENTS

Subsequent to the examination period, the Company entered into a Reinsurance Intermediary-Broker Agreement with Aon Managed Care Services (“AON”), a division of ASPN Insurance and Aon Benfield Inc., effective January 1, 2020 and executed August 28, 2020. Pursuant to the terms of the agreement, Aon negotiates and obtains reinsurance for the Company. The agreement is continuous until terminated by the parties at any time by providing no less than 60 days prior written notice.

The Company’s 2016 and 2019 amended by-laws were submitted to the Department on February 7, 2020.

The Company hired Kevin Clancy as Chief Financial Officer effective May 4, 2020. James Hynek, SVP Finance and Interim Chief Financial Officer, left the Company effective September 18, 2020.

The Company was granted a one-time permitted accounting practice by the Department on June 2, 2020 for the accounting treatment of the Company’s risk share arrangement with its member-owners on its previously filed 2018 and 2019 annual statements.

The Company and Children’s Hospital of Philadelphia (“CHOP”) entered into an agreement effective July 1, 2020 that grants its Pennsylvania member families access to CHOP’s pediatric facilities.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company actively recruit and elect to the Board of Directors the required number of subscriber directors to be in compliance with 40 P.S. § 1557.

The Company has not complied with this recommendation, it will be reiterated for this examination.

2. It is recommended that the Company form committees of their Board that meet the independence requirements of 40 P.S. § 991.1405 (c)(4.1).

The Company has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Company actively recruit and elect to the Board of Directors the required number of subscriber directors in accordance with 40 P.S. § 1557. (see "Board of Directors", page 4)

CONCLUSION


As a result of this examination, the financial condition of Health Partners Plan, Inc., as of December 31, 2019, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 640,329,726	100.0 %
Liabilities	\$ 458,066,425	71.5 %
Capital and Surplus	182,263,301	28.5 %
Total liabilities, capital and surplus	\$ 640,329,726	100.0 %

Since the previous examination, made as of December 31, 2014, the Company's assets increased by \$345,504,125, its liabilities increased by \$242,434,439, and its surplus increased by \$103,069,686.

This examination was conducted by Michael Nadeau, CPA, CFE, CISA, AES, Brian Sewell, CFE, Steve Mahan, FSA, McKay Heasley, ASA, MAAA, and Robin Roberts, CFE, of Eide Bailly, LLP, with the latter in charge.

Respectfully,



Matthew C. Milford, CFE
Director
Bureau of Financial Examinations

David Evans

David R. Evans, CFE
Examination Manager, CFE

Robin Roberts

Robin Roberts (Feb 26, 2021 09:17 EST)

Robin Roberts, CFE
Examiner-in-Charge