



Paul R. LePage  
GOVERNOR

STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL  
AND FINANCIAL REGULATION  
BUREAU OF INSURANCE  
34 STATE HOUSE STATION  
AUGUSTA, MAINE  
04333-0034

Eric A. Cioppa  
SUPERINTENDENT

May 13, 2016

Eric A. Cioppa, Superintendent  
Maine Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §4215 and in conformity with your instructions, a financial examination has been made of

**Martin's Point Generations, LLC**

at its statutory home office in Portland, Maine. The following report is respectfully submitted.



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**REPORT OF EXAMINATION**  
**MARTIN'S POINT GENERATIONS, LLC**  
**AS OF**  
**DECEMBER 31, 2014**

## ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Martin's Point Generations, LLC dated May 13, 2016, was delivered to that insurer on June 9, 2016, and

WHEREAS no hearing with respect to the report of examination has been requested by Martin's Point Generations, LLC

NOW THEREFORE, I accept the report of examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226(3).

Dated: \_\_\_\_\_

6/29/16

  
\_\_\_\_\_  
Eric A. Cioppa, Superintendent

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## SCOPE OF EXAMINATION

Martin's Point Generations, LLC (hereinafter, "Company") was last examined as of December 31, 2011, by the State of Maine Bureau of Insurance. This examination covered the period from January 1, 2012, to December 31, 2014.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"), in conformity with statutory accounting practices, NAIC guidelines, the 2015 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2014. The examination also included the identification and evaluation of significant risks that could cause the Company'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. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S.A. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

## SUMMARY OF SIGNIFICANT FINDINGS

### **PRIOR EXAMINATION**

#### **Comment 1:**

The December 31, 2011, loss reserve of \$11,085,843, as reported by the Company, was determined to be understated by \$1,189,986. The understatement was primarily due to unfavorable loss development.

#### **Status:**

The Company has adequately responded to this comment.

### **CURRENT EXAMINATION**

#### **Comment 1:**

As of December 31, 2014, the reported aggregate health policy reserve of \$0 was determined to be understated by \$25,828,323 based on a review of 2015 operating results. The understatement was due to no premium deficiency reserves (hereinafter, "PDR") being held at year-end. The Company did not have an adequate process for determining PDR at December 31, 2014.

Additionally, due to the timing of the examination, examiners reviewed the process for determining PDR at December 31, 2015 and found that the process continued to be inadequate.

Although the adjustment would have a material impact on surplus as of December 31, 2014, the Company was party to a guaranty agreement with Martin's Point Health Care, Inc. (hereinafter, "MPHC"), the ultimate controlling entity, wherein MPHC agrees to maintain minimum capital and surplus as required by Maine law. Throughout the examination period, MPHC has made capital contributions to the Company to ensure adequate capital and surplus levels are maintained. See Note 1 to the financial statements for additional discussion.

## THE COMPANY

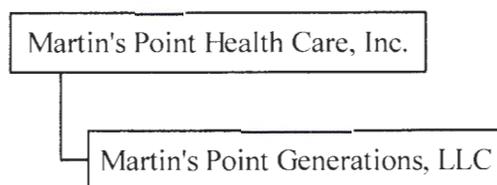
### **HISTORY**

The Company was organized in the State of Maine on January 11, 2006, as a Maine Limited Liability Company and commenced business on January 1, 2007. The State of Maine granted the Company a health maintenance organization (hereinafter, HMO") license, restricted to Medicare Advantage, on April 6, 2006.

The State of New Hampshire granted the Company an HMO license, restricted to Medicare Advantage, on May 3, 2012. The Company commenced writing Medicare Advantage plans in Hillsborough and Strafford counties on January 1, 2013.

### **MANAGEMENT AND CONTROL**

The Company is a wholly-owned subsidiary of MPHC, a Maine non-profit corporation. An abbreviated corporate ownership diagram follows:



### **CORPORATE RECORDS**

The Company's articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

## **CORPORATE GOVERNANCE**

The Company is governed and overseen by its board of directors and its management team.

As of December 31, 2014, the board of directors of the Company consisted of the following members:

<u><b>Name</b></u>	<u><b>Title</b></u>
Warren Deems Alpern, M.D.	Chair
Robert Adair Moore	Vice Chair & Secretary
Edward Charles Dupont, Jr.	Treasurer
David Hermon Howes, M.D.	President
Marylou Buyse, M.D.	Director
George Nelson Campbell, Jr.	Director
Ronald Fitzjohn Dixon, M.D.	Director
Raymond Eldon Durkee	Director
James Alexander Hester, Jr., PhD	Director
Daniel Kent Onion, M.D.	Director
Michael Eric Thomas	Director

As of December 31, 2014, the officers of the Company consisted of the following individuals:

<u><b>Name</b></u>	<u><b>Title</b></u>
David Hermon Howes, M.D.	Chief Executive Officer
Dale Hansen Bradford*	Chief Business and Financial Officer
Lawrence Doran Henry*	Chief Operating Officer
Sandra Lynn Monfiletto*	Organizational Effectiveness Officer
Jonathan Easton Harvey, M.D.	Chief Medical Officer
Daniel Bruce Chojnowski	Vice President of Finance

\*During 2015, the titles of the following officers changed to: Dale Bradford, Chief Financial Officer; Lawrence Henry, Chief Operating Officer Health Plans; and Sandra Monfiletto, Chief Operating Officer Delivery Service. On August 8, 2015, Daniel Bruce Chojnowski replaced Dale Hansen Bradford as Chief Financial Officer.

## **TRANSACTIONS WITH AFFILIATES**

The Company purchases certain marketing, administrative, and managerial services from MPHIC under an operating agreement in accordance with the terms as defined in a management services agreement.

The Company is party to a risk-sharing agreement with MPHIC. This arrangement provides for additional payments by the Company when medical expense costs from providers employed by MPHIC are less than actual revenue. Conversely, it provides for payments from MPHIC when medical expense costs are greater than actual revenue.

**TERRITORY & PLAN OF OPERATION**

The Company is licensed in the States of Maine and New Hampshire to write health insurance, restricted to Medicare Advantage. The Company writes Medicare Advantage plans in all Maine counties and in Hillsborough and Strafford counties in New Hampshire.

**REINSURANCE**

The Company maintains no reinsurance agreements as of December 31, 2014. The Company previously maintained an excess-of-loss reinsurance agreement which covered 90% of the loss amount in excess of \$400,000, limited to \$1,000,000 per member per policy period. The reinsurance agreement expired on September 30, 2013 and was not renewed.

**FINANCIAL STATEMENTS**

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement filed with the NAIC and Maine Bureau of Insurance and should be considered an integral part of the financial statements.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS  
AS OF DECEMBER 31, 2014**

Assets

Bonds	\$ 20,632,174
Common Stocks	9,082,793
Cash and short term investments	18,057,362
Investment income due and accrued	101,773
Uncollected premiums and agents' balances	296,879
Receivables from parent	3,680,351
Health care amounts receivable	<u>10,987,043</u>
Total assets	<u>\$ 62,838,375</u>

Liabilities

Claims unpaid	\$ 23,427,361
Accrued medical incentive pool and bonus amounts	1,010,500
Unpaid claims adjustment expenses	553,202
Aggregate health policy reserves	-
Premiums received in advance	98,084
General expenses due or accrued	1,465,003
Amounts withheld or retained for the account of others	<u>1,767,005</u>
Total liabilities	<u>28,321,155</u>

Capital and Surplus

Aggregate write-ins for special surplus funds	1,817,045
Gross paid in and contributed surplus	98,000,000
Unassigned funds	<u>(65,299,824)</u>
Surplus	<u>34,517,221</u>
Total liabilities, capital and surplus	<u>\$ 62,838,376</u>

**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2014**

Member months	360,916
Net premium income	\$ 231,553,922
Hospital medical benefits	188,607,168
Prescription drugs	34,989,685
Incentive pool, withhold adjustments, and bonus amounts	<u>831,257</u>
Total hospital and medical	224,428,110
Claims adjustment expenses, including cost containment expenses	5,467,424
General administrative expenses	<u>19,799,147</u>
Total underwriting deductions	<u>249,694,681</u>
Net underwriting loss	<u>(18,140,759)</u>
Net investment income earned	136,740
Net realized capital loss	<u>(975)</u>
Net investment gain	<u>135,765</u>
Net loss	<u>\$ (18,004,994)</u>

**STATEMENT OF CAPITAL AND SURPLUS  
YEAR ENDED DECEMBER 31, 2014**

Capital and surplus, December 31, 2013	\$ 17,706,845
Net loss	(18,004,994)
Change in net unrealized capital gains (losses), net of capital gains tax	(332,199)
Change in nonadmitted assets	(3,352,431)
Paid in capital	<u>38,500,000</u>
Net change in capital and surplus	<u>16,810,376</u>
Capital and surplus, December 31, 2014	<u><u>\$ 34,517,221</u></u>

## COMMENTS ON THE FINANCIAL STATEMENTS

### **NOTE 1 – RESERVES**

Lewis & Ellis, Inc. (hereinafter, “consulting actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2014. Based on the review performed by the consulting actuary, the reserves as reported by the Company were determined to be reasonable, with the exception of aggregate health policy reserves.

As of December 31, 2014, the reported aggregate health policy reserve of \$0 was determined to be understated by \$25,828,323 based on a review of 2015 operating results. The understatement was due to no PDR being held at year-end. The Company did not have an adequate process for determining PDR at December 31, 2014. Additionally, due to the timing of the examination, examiners reviewed the process for determining PDR at December 31, 2015 and found that the process continued to be inadequate.

Although the adjustment would have a material impact on surplus as of December 31, 2014, the Company was party to a guaranty agreement with MPHC, wherein MPHC agrees to maintain minimum capital and surplus as required by Maine law. Throughout the examination period, MPHC has made capital contributions to the Company to ensure adequate capital and surplus levels are maintained.

The Company reported an authorized control level Risk-Based Capital (hereinafter, “RBC”) ratio of 370.1% in its December 31, 2014 filed annual statement. Recognition of the \$25,828,323 adjustment described above would have lowered the RBC ratio to 93.2% at December 31, 2014. Pursuant to 24-A M.R.S.A. §6455, an RBC ratio of 93.2% indicates an authorized control level event.

The table below describes the impact on the balance sheet without capital contribution from MPHC:

#### Analysis of Changes to Surplus

Surplus at December 31, 2014, per Annual Financial Statement		\$ 34,517,221
	<u>Increase</u>	<u>Decrease</u>
Aggregate Health Policy Reserves		\$ 25,828,323
Net increase (decrease)		<u>\$ (25,828,323)</u>
Surplus at December 31, 2014, after adjustment		<u>\$ 8,688,898</u>

## NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the three year period since the Maine Bureau of Insurance's last examination of the Company, dated December 31, 2011:

Capital and surplus, December 31, 2011	\$ 9,410,776
Net loss	(35,960,449)
Change in net unrealized capital gains or (losses), net of capital gains tax	(332,199)
Change in nonadmitted assets	(6,100,907)
Capital adjustments: Paid in	<u>67,500,000</u>
Capital and surplus, December 31, 2014	<u>\$ 34,517,221</u>

## SUBSEQUENT EVENTS

On January 1, 2015, the Company was subject to an annual fee under Section 9010 of the Federal Affordable Care Act (hereinafter, "ACA"). This annual fee is allocated to individual health insurers based on the ratio of the entity's premiums written during the preceding year to the amount of health insurance for any U.S. health risk that is written in the preceding year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2014, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2015, and estimates their portion of the annual health insurance industry fee to be payable September 30, 2015 to be \$1,817,045.

In February of 2015, MPHC made its final funding contribution for 2014 in the amount of \$3,500,000. During 2015, MPHC made additional contributions totaling \$31,000,000 to the Company.

On July 31, 2015, Martin's Point Generations Advantage, Inc. (hereinafter, "MPGA"), a wholly-owned subsidiary of MPHC, was incorporated as a nonprofit corporation in the State of Maine. In December of 2015, the States of Maine and New Hampshire each issued certificates of authority to MPGA to operate a Medicare Advantage health maintenance organization with limited PPO and POS options in each state. Effective January 1, 2016, pursuant to the Asset and Liability Transfer Agreement executed by and between the Company and MPGA, the Company transferred all of its assets and liabilities to MPGA for the purpose of continuing the operations of Medicare Advantage health plans currently maintained by the Company.

It is anticipated that the Company will file a plan of dissolution with the Maine Bureau of Insurance in the near future.

## **SUMMARY OF RECOMMENDATIONS**

It is recommended that the Company develop an adequate process to determine the PDR in accordance with the Statement of Statutory Accounting Principles No. 54 and periodically re-evaluate the PDR as actual experience develops throughout the year.

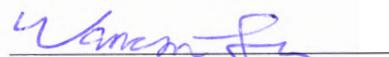
**STATE OF MAINE  
COUNTY OF KENNEBEC, SS**

Vanessa J. Leon, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

**MARTIN'S POINT GENERATIONS, LLC**

located in Portland, Maine as of December 31, 2014, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE  
Audrey L. Wade, CFE, CISA  
Jason M. Freedman, AFE  
Sarah A. Hyde

  
\_\_\_\_\_  
Vanessa J. Leon, CFE

Subscribed and sworn to before me  
This 29 day of June, 2016

  
\_\_\_\_\_  
Notary Public  
My Commission Expires: June 12, 2023

**KARMA LOMBARD  
Notary Public, Maine  
My Commission Expires June 12, 2023**

**APPENDIX A – STATEMENT OF ACTUARIAL OPINION**

**Dallas**

Glenn A. Tobleman, F.S.A., F.C.A.S.  
 S. Scott Gibson, F.S.A.  
 Cabe W. Chadick, F.S.A.  
 Michael A. Mayberry, F.S.A.  
 David M. Dillon, F.S.A.  
 Gregory S. Wilson, F.C.A.S.  
 Steven D. Bryson, F.S.A.  
 Bonnie S. Albritton, F.S.A.  
 Brian D. Rankin, F.S.A.  
 Jacqueline B. Lee, F.S.A.  
 Wesley R. Campbell, F.S.A., F.C.A.S.  
 Xiaoxiao (Lisa) Jiang, F.S.A.

**Baltimore**

David A. Palmer, C.F.E.

**Kansas City**

Gary L. Rose, F.S.A.  
 Terry M. Long, F.S.A.  
 Leon L. Langlitz, F.S.A.  
 D. Patrick Glenn, A.S.A., A.C.A.S.  
 Christopher J. Merkel, F.S.A.  
 Christopher H. Davis, F.S.A.  
 Karen E. Elsom, F.S.A.  
 Jill J. Humes, F.S.A.  
 Kimberly S. Shores, F.S.A.  
 Michael A. Brown, F.S.A.  
 Naomi J. Kloeppersmith, F.S.A.  
 Stephanie T. Crowhart, F.S.A.  
 Mark W. Birdsall, F.S.A.  
 Jan E. DeClue, A.S.A.  
 Patricia A. Peebles, A.S.A.  
 Jeffrey D. Lee, A.S.A.  
 Andrea J. Huckaba, A.S.A., C.E.R.A.

**London/Kansas City**

Timothy A. DeMars, F.S.A., F.I.A.  
 Scott E. Morrow, F.S.A., F.I.A.  
 Roger K. Annin, F.S.A. (Of Counsel)

**Denver**

Mark P. Stukowski, F.S.A.  
 William J. Gorski, F.S.A.

**Indianapolis**

Kathryn R. Koch, A.C.A.S.

**MARTIN'S POINT GENERATIONS, LLC**  
 Statement of Actuarial Opinion  
 As of December 31, 2014

I, Karen E. Elsom, am a Consulting Actuary with Lewis & Ellis, Inc., Actuaries and Consultants, and am a member of the American Academy of Actuaries. I meet the Academy qualification standards for rendering this opinion and am familiar with the valuation requirements for Health Plans. As part of the financial examination process by the Maine Bureau of Insurance, I participated in the examination of Martin's Point Generations, LLC. I recalculated and verified certain actuarial items appearing in the Annual Statement as of December 31, 2014 of Martin's Point Generations, LLC, Portland, Maine as prepared for filing with state regulatory officials.

I have examined the actuarial assumptions and actuarial methods used in determining loss reserves, actuarial liabilities and related items listed below, as shown in the NAIC Annual Statement of the Company at December 31, 2014, and restated by Lewis & Ellis, Inc.

(A)	Claims Unpaid (Page 3, Item 1)	\$23,427,361
(B)	Accrued Medical Incentive Pool and Bonus Amounts (Page 3, Item 2)	1,010,500
(C)	Unpaid Claim Adjustment Expenses (Page 3, Item 3)	553,202
(D)	Aggregate Health Policy Reserves (Page 3, Item 4)	25,828,323
(G)	Aggregate Health Claim Reserves (Page 3, Item 7)	0
(I)	Health Care and Other Amounts Receivable (Page 2, Item 24)	10,987,043

My examination included such review of the actuarial assumptions and actuarial methods used by the Company and such tests of the actuarial calculations as I considered necessary. I relied upon in force and claims data supplied by Martin's Point Generations, LLC. The claims data was tested for completeness and accuracy by the Maine examiners and me.

## Martin's Point Generations, LLC

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In my opinion, the amounts carried in the balance sheet and as restated by Lewis & Ellis on account of the actuarial items identified above:

- (1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;
- (2) are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;
- (3) meet the requirements of the insurance laws and related rules and regulations of the state of Maine;
- (4) make good and sufficient provision in aggregate for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements, except as noted in the following report;
- (5) are, to the best of my knowledge, computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end except as noted in the following report; and
- (6) include appropriate provision, in the aggregate, for the above specified actuarial items which ought to be established, except as noted in the following report.

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board which standards form the basis of this statement of opinion.

The actuarial liabilities and certain actuarial related items referred to in this opinion are estimates based on the claims data provided by the Company. The exact liabilities will not be known until a sufficient passage of time permits the filing and payment of all outstanding claims.



---

Karen E. Elsom, FSA, MAAA

LEWIS & ELLIS, INC.  
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Overland Park, KS 66210  
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KElsom@LewisEllis.com

May 23, 2016

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