

**REPORT ON EXAMINATION**  
**OF THE**  
**EMPIRE HEALTHCHOICE, INC.**  
**AS OF**  
**DECEMBER 31, 1999**

**DATE OF REPORT**  
**EXAMINER**

**SEPTEMBER 3, 2002**  
**WAI WONG**



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

Date: September 3, 2002

Honorable Gregory Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and acting in accordance with directions contained in Appointment Number 21510 dated March 6, 2000 and annexed hereto, I have made an examination into the financial condition and affairs of Empire HealthChoice, Inc., a health maintenance organization licensed under Article 44 of the New York Public Health Law.

Whenever the terms "the Plan" or "Empire" appear herein without qualification, they should be understood to mean Empire HealthChoice, Inc.

## **1. SCOPE OF EXAMINATION**

A report on organization of Empire HealthChoice, Inc. was previously done as of May 31, 1996. The current examination covers the period from May 31, 1996 through December 31, 1999. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a verification of assets and liabilities as of December 31, 1999, and a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by Empire's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Plan
- Management and control
- Corporate records
- Territory and plan of operation
- Growth of Corporation
- Accounts and records

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF PLAN**

The Plan was originally incorporated in February of 1996 as Family HealthChoice, Inc. a health maintenance organization. The HMO is a wholly owned subsidiary of Choice Holdings, Inc. a holding company which is wholly owned by Empire Blue Cross and Blue Shield. The HMO was granted a certificate of authority under the provisions of Article 44 of the New York State Public Health Law effective March 7, 1996 to operate a for profit HMO. Effective June 10, 1996, Family HealthChoice, Inc. changed its name to Empire HealthChoice, Inc.

In October of 1999 Empire Health Care, Inc. was incorporated in Delaware as a holding company for Empire Blue Cross and Blue Shield if the proposed restructuring to a for profit entity occurred. Empire Health Care, Inc. merged with Choice Holdings in December of 1999. The merged entity retained the name Empire Health Care, Inc. and Choice Holdings was dissolved in the transaction. As of January 1, 2001 Empire Healthcare, Inc. was renamed WellChoice, Inc. and Empire HealthChoice, Inc. was renamed Empire HealthChoice HMO, Inc. The Plan is also licensed as a health maintenance organization in the state of New Jersey where it does business as WellChoice HMO of New Jersey.

The financial records of the Plan, in thousands (\$000) omitted, for the years covered by this examination and the year 2000, as reflected in the annual statements filed with this Department indicated the following:

Year	Net Premiums Written	Admitted Assets	Liabilities	Net Worth
1996	\$ 0	\$ 20,860	\$ 740	\$ 20,120
1997	\$ 0	\$ 20,608	\$ 820	\$ 19,788
1998	\$ 0	\$ 20,649	\$ 789	\$ 19,860
1999	\$ 2,297	\$ 21,568	\$ 3,042	\$ 18,526
2000	\$ 13,629	\$ 18,358	\$ 4,089	\$ 14,269

Net premiums written in 1999 and 2000 is New Jersey business only. The Plan did not have any premium writings in New York State in 1999 and 2000.

**A. Management**

The following individuals were members of the board of directors as of December 31, 1999:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael A. Stocker, MD, Chairman New York, NY	President and CEO Empire Blue Cross and Blue Shield
Joseph Berado, Jr. Sea Girt, NJ	Senior Vice President, Chief Sales Officer Empire Blue Cross and Blue Shield
Deborah Bohren Scarsdale, NY	Vice President, Public Affairs Empire Blue Cross and Blue Shield
Angelo V. Dascoli Rutherford, NJ	Vice President, Utilization Management Empire Blue Cross and Blue Shield
John F. Early Danbury, CT	Vice President, Strategic Initiatives Empire Blue Cross and Blue Shield
Michael W. Fedyna Maple Glen, PA	Vice President, Chief Actuary Empire Blue Cross and Blue Shield

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John M. Feehan New York, NY	Vice President, Chief Underwriter Empire Blue Cross and Blue Shield
John M. Furka Denville, NJ	Vice President, Auditing Empire Blue Cross and Blue Shield
Kenneth O. Klepper Jersey City, NJ	Senior Vice President, Systems Empire Blue Cross and Blue Shield
Peter Liria Jr., Esq. Florida, NY	Vice President, Compliance and Corporate Secretary Empire Blue Cross and Blue Shield
Gloria M. McCarthy Blauvelt, NY	Senior Vice President, Operations and Managed Care Empire Blue Cross and Blue Shield
William B. O'Loughlin Greenlawn, NY	Senior Vice President, Chief Information Officer Empire Blue Cross and Blue Shield
William J. Osheroff, M.D. New York, NY	Vice President, Chief Medical Officer Empire Blue Cross and Blue Shield
Louis Parisi Pittstown, NJ	Vice President, Fraud Investigation & Detection Empire Blue Cross and Blue Shield
Connie C. Poirier Jersey City, NJ	Senior Vice President, Medical Delivery Systems and Medicare Risk Empire Blue Cross and Blue Shield
Donna R. Ratliff Upper Montclair, NJ	Senior Vice President, Human Resources and Services Empire Blue Cross and Blue Shield
John W. Remshard Lower Gwynedd, PA	Senior Vice President, Chief Financial Officer Empire Blue Cross and Blue Shield
Jack Allen Smith Darien, CT.	Senior Vice President, Chief Marketing Officer Empire Blue Cross and Blue Shield
David Snow, Jr. Darien, CT.	Executive Vice President and Chief Operating Officer Empire Blue Cross and Blue Shield
Linda V. Tiano, Esq. Larchmont, NY	Senior Vice President, General Counsel Empire Blue Cross and Blue Shield

The following individuals Joseph Berado Jr., John M. Feehan, John M. Furka, William J. Osheroff, M.D., Louis Parisi, and Donna R. Ratliff resigned as officers of Empire Blue Cross and Blue Shield in 2000 and as a result relinquished their position on the board of this entity.

Part 98-1.11(f) of the New York Codes, Rules and Regulations states in part:

*“within one year of the HMO receiving a certificate of authority, no less than 20 percent of the members of the governing authority shall be enrollees of the HMO. Employees of the HMO or providers of health services may not serve as enrollee representatives”.*

The Plan received its certificate of authority on March 6, 1996 but as of the date of this exam December 31, 1999, Empire HealthChoice, Inc. had not met the requirement that 20% of its board of directors be enrollees of the HMO. Empire HealthChoice HMO, Inc. has an agreement with the New York State Department of Health that permits EHC-HMO one year from the time it began writing business in New York State before this Board composition requirement becomes effective. EHC-HMO began operating on May 1, 2002. Thus, EHC-HMO must be in compliance by May 1, 2003 and Empire intends to be in compliance with this requirement by that time.

Within one year from the date when Empire HealthChoice, Inc. begins writing business in New York State the composition of its board of directors should comply with Part 98-1.11(f) of the New York Codes, Rules and Regulations.

The principal officers of the Plan at December 31, 1999 were as follows:

Michael A. Stocker, M.D.	President and CEO
David B. Snow, Jr.	Executive Vice President and COO
Gloria M. McCarthy	Senior Vice President, Operations and Managed Care
John W. Remshard	Senior Vice President and CFO
Linda V. Tiano, Esq.	Senior Vice President and General Counsel
Michael Della Iacono	Vice President and Treasurer
Michael Palmateer	Vice President and Controller
Peter Liria, Jr., Esq.	Vice President, Compliance and Corporate Secretary

**B. Territory and Plan of Operation**

As set forth in the certificate of authority Empire HealthChoice, Inc. is permitted to serve the following twenty-eight counties of the State of New York listed below:

New York Region

Bronx	Brooklyn	Dutchess	Manhattan
Nassau	Putnam	Queens	Richmond
Rockland	Suffolk	Westchester	

Albany Region

Albany	Clinton	Columbia	Delaware
Essex	Fulton	Greene	Montgomery
Orange	Rensselaer	Saratoga	Schenectady
Schoharie	Sullivan	Ulster	Warren
Washington			

Empire filed with the Department changes to the current rating regions which divides the 28 counties into the three rating regions show below instead of the two currently used.

<u>New York Region</u>			
Bronx	Brooklyn	Manhattan	Queens
Richmond	Nassau	Suffolk	Westchester
Rockland			
<u>Mid-Hudson</u>			
Dutchess	Orange	Putnam	Sullivan
Ulster			
<u>Albany Region</u>			
Albany	Clinton	Columbia	Delaware
Essex	Fulton	Greene	Montgomery
Rensselaer	Saratoga	Schenectady	Schoharie
Warren	Washington		

At the end of 1999, Empire HealthChoice, Inc. did not write any business in New York State. Its only business writings were in New Jersey. The Plan does not intend to write business in New York until after Empire Blue Cross and Blue Shield's conversion into a for-profit entity. When the conversion takes place Empire Blue Cross and Blue Shield's existing HMO business will be transferred into Empire HealthChoice, Inc. and the Plan will begin writing new business in New York State.

### **C. Capital and Surplus**

At inception of the Plan 200 shares of stock at \$.01 par value was issued to the holding company for consideration of \$20,000,000. The common stock of Empire HealthChoice, Inc. was reported at \$2 with paid in surplus of \$19,999,998.

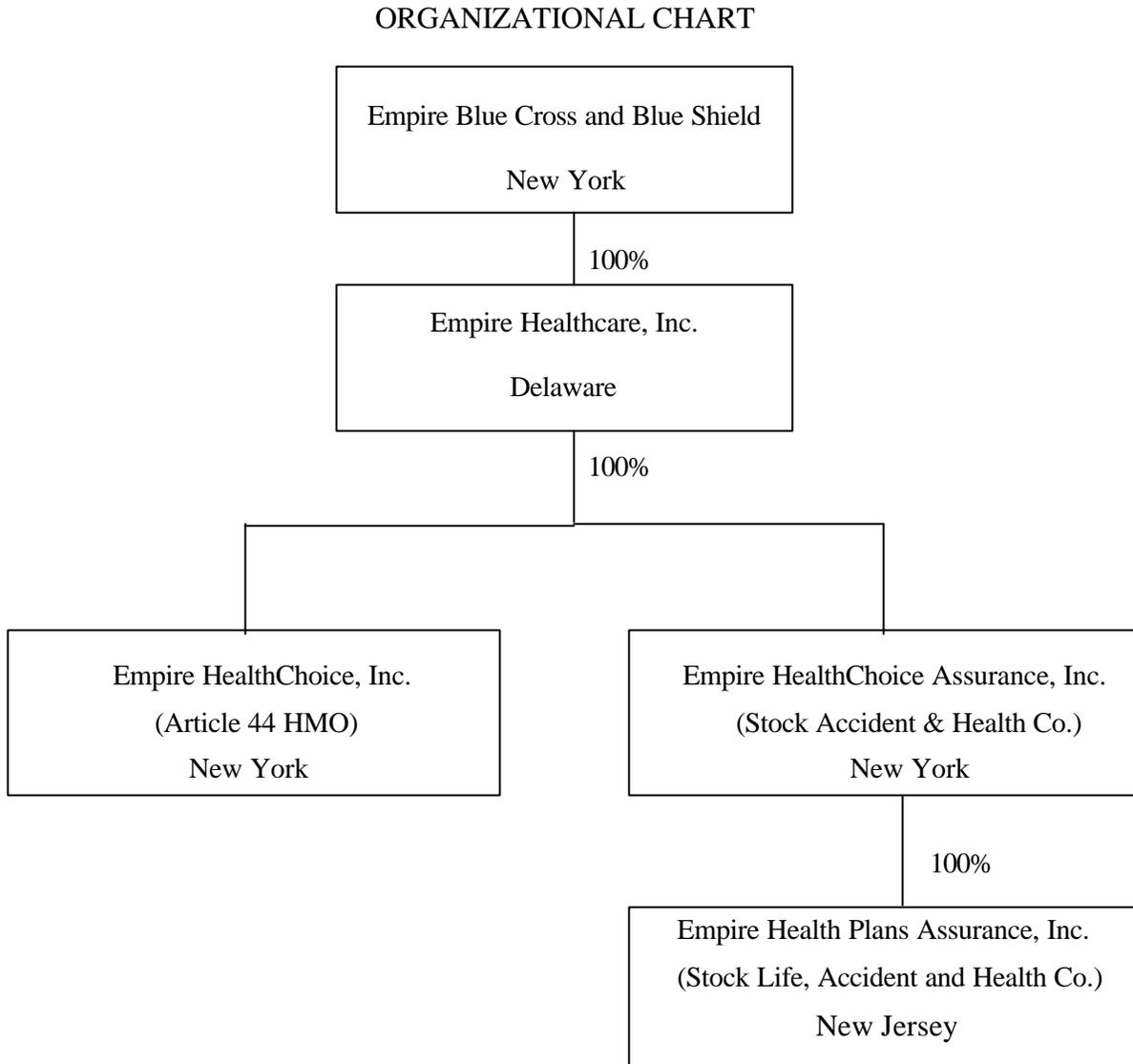
As of December 31, 1999, the capital of the Plan was \$2 with 200 shares of common stock at \$.01 par value while paid in surplus was \$19,563,590. The Plan's retained earnings at year end was \$1,473,971.

Part 98.11 (e) of the Department of Health Rules and Regulations (10 NY CRR 98) states each HMO initiating operations under the authority of Article 44 of the Public Health Law shall establish a deposit in the form of an escrow account for the protection of enrollees equal to the greater of five percent of the estimated expenditures for health care services for the year or \$100,000.

The Plan does not have any health care expenses in New York but has established an escrow account in the amount of \$101,197 in compliance of this section. The Plan also has a New Jersey contingency reserve of \$335,211.

**D. Holding Company System**

The following shows the Company's organizational chart at December 31, 1999:



### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and total reserves and unassigned funds as determined by this examination and as reported by the company as of December 31, 1999.

<u>Assets</u>	Assets	Assets Not Admitted	Net Admitted Assets
Cash on hand and on deposit	\$ 237,514		\$ 237,514
Short-term investments	19,861,200		19,861,200
Premiums receivable	494,788		494,788
Amounts due from affiliates	932,561		932,561
Prepaid Insurance	30,000		30,000
A/R – NY State & City Tax Refund	9,115		9,115
Miscellaneous Receivables	2,606		2,606
Total assets	\$ 21,567,784		\$ 21,567,784

<b><u>Liabilities and Surplus</u></b>	<b><u>Amount</u></b>
Liabilities	
Claims payable	\$ 971,874
Unearned premiums	182,421
Amounts due to affiliates	1,905,459
Aggregate write-ins for current liabilities	<u>(17,999)</u>
Total current liabilities	<u>\$ 3,041,755</u>
Reserves and unassigned funds	
Paid in surplus	\$ 19,563,590
Contingency reserves	436,408
Retained earnings/fund balance	<u>(1,473,971)</u>
Total reserves and unassigned funds	\$ 18,526,029
Total liabilities and reserves and unassigned funds	<u><u>\$ 21,567,784</u></u>

## B. Statement of Revenue, Expenses and Income

The following shows the Statement of Revenue, Expenses and Income for the period covered by the examination and 2000:

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b><u>Member Months</u></b>	0	0	0	17,083	89,189
<b><u>Revenues</u></b>					
Premium	\$ 0	\$ 0	\$ 0	\$ 2,296,568	\$ 13,629,207
Investment	859,822	1,099,803	1,004,517	934,395	1,120,641
Total revenues	<u>\$ 859,822</u>	<u>\$ 1,099,803</u>	<u>\$ 1,004,517</u>	<u>\$ 3,230,963</u>	<u>\$ 14,749,848</u>
<b><u>Expenses</u></b>					
Medical and Hospital:					
Physician services	\$ 0	\$ 0	\$ 0	\$ 507,056	\$ 2,458,891
Outside referrals	0	0	0	131,554	637,949
Emergency room and out-of-area	0	0	0	286,982	1,754,636
Inpatient	0	0	0	318,012	2,141,589
Drug	0	0	0	210,107	1,379,167
Other Medical	0	0	0	274,003	1,491,353
Pooling Charges	0	0	0	1,793	16,584
Other Capitation-Mental Health	0	0	0	95,970	0
Graduate Medical Expense	0	0	0	1,646	0
Miscellaneous Expenses	0	0	0	9,372	356,362
Total Medical and Hospital	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,836,495</u>	<u>\$ 10,236,531</u>
Administration					
Total Administration	<u>\$ 740,024</u>	<u>\$ 915,164</u>	<u>\$ 626,388</u>	<u>\$ 3,641,520</u>	<u>\$ 8,627,272</u>
Total expenses	<u>\$ 740,024</u>	<u>\$ 915,164</u>	<u>\$ 626,388</u>	<u>\$ 5,478,015</u>	<u>\$ 18,863,803</u>
Income (loss)	<u>\$ 119,798</u>	<u>\$ 184,639</u>	<u>\$ 378,129</u>	<u>\$ (2,247,052)</u>	<u>\$ (4,113,955)</u>
Provision for Federal Income Tax	<u>\$ 0</u>	<u>\$ 516,261</u>	<u>\$ 305,676</u>	<u>\$ (912,452)</u>	<u>\$ 0</u>
<b>Net Income (Loss)</b>	<u><u>\$ 119,798</u></u>	<u><u>\$ (331,622)</u></u>	<u><u>\$ 72,453</u></u>	<u><u>\$ (1,334,600)</u></u>	<u><u>\$ (4,113,955)</u></u>

### C. Underwriting and Investment Exhibit

Reserves and unassigned funds decreased \$1,473,971 during the four-year examination period May 31, 1996 through December 31, 1999, detailed as follows:

#### Statement of Income

##### Underwriting Income

Premiums earned		\$ 2,296,568
Deductions:		
Physician services	\$ 507,056	
Outside referrals	131,554	
Emergency room out-of-area	286,982	
Inpatient	318,012	
Drug Expense	210,107	
Other Medical	274,003	
Pooling Charges	1,793	
Other Capitation-Mental Health	95,970	
Graduate Medical Expense	1,646	
Miscellaneous	9,372	
Administrative Expenses	5,923,096	
Total underwriting deductions	\$ 7,759,591	
Net underwriting gain (loss)		\$ (5,463,023)

##### Investment Income

Net investment income earned	\$ 3,898,537	
Net investment gain		\$ 3,898,537
Net loss before federal income taxes		\$ (1,564,486)
Federal income taxes incurred		(90,515)
Net income (loss)		\$ (1,473,971)

**Reserves and Unassigned Funds**

Reserves and unassigned funds  
 May 31, 1996, per report on examination \$19,999,998

	<u>Gains in reserves And unassigned funds</u>	<u>Losses in reserves and unassigned funds</u>	
Net loss		\$ (1,473,971)	
Decrease in paid in surplus		\$ (336,408)	
Increased in contingency reserve	\$ 336,408		
Total increases and decreases	<u>\$ 336,408</u>	<u>\$ (1,810,379)</u>	

Net increase to reserves and  
 Unassigned funds \$ (1,473,971)

Reserves and unassigned funds  
 December 31, 1999, per report on examination \$ 18,526,027

**4. SUMMARY OF COMMENTS AND RECOMMENDATIONS****ITEM NO.****PAGE NO.****Management**

- |    |  |   |
|----|--|---|
| A. | Within one year following the date when Empire HealthChoice HMO, Inc. begins writing business in New York State the composition of its board of directors should comply with Part 98-1.11(f) of the New York Codes, Rules and Regulations. | 6 |
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Appointment No. 21510

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Wai Wong**

*as a proper person to examine into the affairs of the*

**Empire HealthChoice, Inc.**

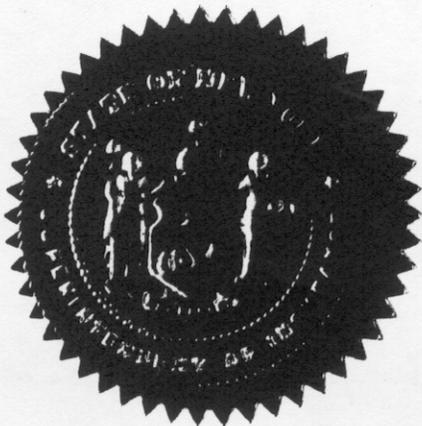
*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 6th day of March 2000*



\_\_\_\_\_  
NEIL D. LEVIN

Superintendent of Insurance

*(by) Deputy Superintendent*