

REPORT ON EXAMINATION

OF

CATHOLIC SPECIAL NEEDS PLAN, LLC

AS OF

DECEMBER 31, 2015

DATE OF REPORT

NOVEMBER 19, 2020

EXAMINER

VICTOR ESTRADA

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

November 19, 2020

Honorable Linda A. Lacewell
Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 31631, dated May 17, 2017, attached hereto, I have made an examination into the condition and affairs of Catholic Special Needs Plan, LLC, d/b/a ArchCare Advantage, a not-for-profit health maintenance organization (“HMO”) licensed pursuant to the provisions of Article 44 of the New York State Public Health Law, as of December 31, 2015, and submit the following report thereon.

The examination was conducted at the home office of Catholic Special Needs Plan, LLC located at 205 Lexington Avenue, New York, New York.

Wherever the designations the “Plan”, or “CSNP” appear herein, without qualification, they should be understood to indicate Catholic Special Needs Plan, LLC.

Wherever the designations the “Parent” or “CHCS” appear herein, without qualification, they should be understood to indicate Catholic Health Care System, Inc.

Wherever the designations the “Department” or the “DFS” appear herein, without qualification, they should be understood to indicate the New York State Department of Financial Services.

1. SCOPE OF THE EXAMINATION

Catholic Special Needs Plan, LLC was previously examined as of December 31, 2010. This examination of the Plan was a combined (financial and limited market conduct) examination and covered the five-year period January 1, 2011, through December 31, 2015. The financial component of the examination was conducted as a financial examination, as such term is defined in the National Association of Insurance Commissions (“NAIC”) *Financial Condition Examiners Handbook, 2016 Edition* (“the Handbook”). The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015, were also reviewed.

The financial portion of the examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in the Company’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as identify prospective risks that may threaten the future solvency of the Plan.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management’s compliance with the Department’s statutes and guidelines, Statutory Accounting Principles, as adopted by the Department and annual statement instructions.

Information concerning the Plan's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan's risks and management activities in accordance with the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputation

The examination also evaluated the Plan's critical risk categories in accordance with the NAIC's ten critical risk categories. These categories are as follows:

- Valuation/ Impairment of Complex of Subjectively Valued Invested Assets
- Liquidity Considerations
- Appropriateness/ Adequacy of Investment Portfolio and Strategy
- Appropriateness/ Adequacy of Reinsurance Program
- Reinsurance Reporting and Collectability
- Underwriting and Pricing Strategy/ Quality
- Reserve Data
- Reserve Adequacy
- Related Party/ Holding Company Considerations
- Capital Management

The Plan was audited annually for the years 2011 through 2015, by the accounting firm O'Connor, Davies LLP ("OCD"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of OCD were reviewed and relied upon in conjunction with this examination. The guidelines and procedures in the Handbook require a review of the insurers' internal audit function and Enterprise Risk Management/ Own Risk Solvency Assessment.

However, the Plan did not have an internal audit function and it has not adopted an Enterprise Risk Management program. Additionally, it was noted that the Plan also did not have an Audit Committee. The entire Board (known as the “Management Committee”), among their other duties, also acts in the capacity of an Audit Committee for the Plan. The Plan relies solely on OCD for its audit function.

During this examination, an information systems review was made of the Plan’s computer systems and operations on a risk-focused basis, in accordance with the provisions of the Handbook.

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 THE PLAN

Catholic Special Needs Plan, LLC (“CSNP”) d/b/a ArchCare Advantage is a Medicare Advantage (“MA”) coordinated care plan (“CCP”). Under the Medicare Modernization Act (“MMA”) of 2003, Congress created a new type of Medicare Advantage coordinated care plan focused on individuals with special needs. Special Needs Plans (“SNP”) were allowed to target enrollment to one or more types of special needs individuals identified by Congress as: 1) institutionalized; 2) dually eligible for both Medicare and Medicaid; and 3) individuals with severe or disabling chronic conditions. ArchCare Advantage is a specialized Medicare Advantage Plan (a Medicare Advantage “Special Needs Plan”), which means its benefits are designed for people with special health care needs. ArchCare Advantage is designed specifically for people who live

in an institution (like a nursing home) or who need a level of care that is usually provided in a nursing home. CSNP is classified as an Institutional Special Needs Plan (“I-SNP”).

The Plan was incorporated under the laws of New York State as an Article 44 Health Maintenance Organization (“HMO”) on March 6, 2007, and commenced business on January 1, 2008. The Plan enrolls Medicare eligible individuals who are eligible for nursing homes and senior needs facilities for more than 90 days. The Plan is exempt from income tax.

The Plan is a wholly owned subsidiary of Catholic Health Care System, Inc. (“CHCS”), which was established principally to provide support services and coordination of managed care, medical affairs, management information systems and other services to CHCS, under which, CHCS provides finance, information systems, human resources, and legal services to the Plan.

The Plan is incorporated as a not-for-profit organization and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. In June 2007, the Plan received two separate loans under Section 1307 of the New York Insurance Law; one from its Parent, CHCS and the other from its affiliate, Kateri Residence, in the amounts of \$4,000,000 and \$750,000, respectively.

In March 2011 and 2013 respectively, CSNP received permission from the Department to repay \$750,000 and \$2,000,000 of the \$4,000,000 subvention note to Kateri Residence and CHCS, respectively. The remaining \$2,000,000 was outstanding as of December 31, 2015.

On July 7, 2007, the New York State Department of Health (“NYSDOH”) issued a Certificate of Authority authorizing the Plan to operate in Bronx, New York and Richmond counties. Specialized Medicare Advantage Plan (a Medicare Advantage “Special Needs Plan”) is

the only line of business of the Plan. Total written premiums for the MA line of business was \$46,079,809 for calendar year 2015.

A. Corporate Governance

Pursuant to Section 5.1 of the Plan’s Operating Agreement (“the Agreement”), the management of the Plan shall be vested in a Management Committee (the “Management Committee”) comprised of managers (each a “Manager”). The number of Managers comprising the Management Committee shall be fixed from time to time by the Parent company, Catholic Health Care System, Inc. (“CHCS”). The Agreement stated that initially, there shall be three (3) Managers. It should be noted that no less than one third of the Managers shall be residents of New York State, as required by Part 98-1.11(g)(1) of the Administrative Rules and Regulations of the Health Department (10 NYCRR 98-1.11), and within one (1) year of the Plan becoming operational no less than twenty percent (20%) of the Managers shall be enrollees of the Plan. However, in lieu of such requirement, the Management Committee may establish an Enrollee Advisory Council which is representative of the Plan’s enrollment. As of December 31, 2015, the Plan had six (6) Managers and the Enrollee Advisory Council consisted of five (5) enrollee members.

The members of the Plan’s Management Committee as of December 31, 2015 were as follows:

Name and Residence

Karl P. Adler, MD
New York, NY

Frank A. Calamari
Pelham Manor, NY

Principal Business Affiliation

President and Chief Executive Officer,
New York Medical College

President and Chief Executive Officer,
Calvary Hospital

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Msgr. Charles J. Fahey Syracuse, NY	Priest and Retired Professor,
Francis J. Serbaroli, Esq Greenwich, CT	Attorney, Greenberg Traurig, LLP
Gerald Sweeney New York, NY	Chief Information Officer, Healthfirst, Inc.
Genaro Vasile, PhD Estreo, FL	Retired

According to its operating agreement, CSNP's Management Committee shall hold an annual meeting in January of each year at a date and time determined by the Committee and shall hold at least quarterly regular meetings each year on such dates and such times and places as may be designated by resolution by the Managers. CSNP's Management Committee met at least quarterly during the period January 1, 2011 through December 31, 2015. A review of the Management Committee's minutes indicated that the meetings were generally well attended, with all members attending at least one-half of the meetings they were eligible to attend.

It was noted that Managers Joseph Anderson (who resigned on February 11, 2014) and Gennaro Vasile, PhD who were appointed on September 12, 2013 and November 5, 2013 respectively, were not listed on the Plan's 2013 Annual Statement Jurat Page.

It is recommended that the Plan include all managers of the Management Committee at year-end in its corresponding Annual Statements.

Section 5.2, *Election and Term of Managers*, of CSNP's operating agreement states, in part:

"At each annual meeting of the Member, the Member shall appoint the Managers to hold office until the next annual meeting of the Member..."

The Managers for the examination period were not appointed annually; rather, they were appointed mid-year for a three-year term.

It is recommended that CSNP appoint its Managers in accordance with its operating agreement.

Furthermore, Section 5.7, *Meetings of the Management Committee: Quorum*, of CSNP's operating agreement states, in part:

"...The committee shall hold an annual meeting in January of each year at a date and time determined by the Committee and shall hold at least quarterly meetings each year..."

For the period under examination, only one (1) meeting was held in January. However, there was no mention of the election of CSNP's Managers noted in the minutes.

It is also recommended that CSNP comply with Section 5.7 of its by-laws by ensuring that its Managers hold annual meetings in January.

The principal officers of the Plan as of December 31, 2015, were as follows:

<u>Name</u>	<u>Title</u>
Scott LaRue	President and Chief Executive Officer
Annmarie Covone	Senior VP and Chief Financial Officer

B. Territory and Plan of Operation

Pursuant to Article 44 of the New York Public Health Law, the New York State Department of Health ("NYSDOH") issued a Certificate of Authority ("the Certificate") to Catholic Special Needs Plan d/b/a ArchCare Advantage effective July 5, 2007. The latest amendment to the

Certificate of Authority was dated August 25, 2015. The Certificate authorized the Plan to offer Medicare products in Bronx, Dutchess, Kings, New York, Onondaga, Orange, Putnam, Queens, Richmond and Westchester counties contingent upon approval and execution of a contract with the Centers for Medicare and Medicaid Services (“CMS”).

The Certificate contained the following conditions and limitations:

- *“Catholic Special Needs Plan is limited to enrolling and offering only Medicare products in these counties. All aspects of operation in these Medicare only counties will be governed primarily by the Center for Medicare and Medicaid Services (“CMS”), and implementation is contingent upon securing a Medicare contract with the Federal government...”*
- *In order to offer any other product in these counties or enroll a non-Medicare population, Catholic Special Needs Plan must submit an application to the Department at least 90 days prior to the proposed implementation date.”*

It should be noted that Medicare Advantage Special Needs Plan is the only line of business of written by the Plan.

During the examination period the Plan experienced a net increase in enrollment of 629 members. An analysis of the enrollment is set forth below:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Enrollment at January 1 st	916	1,038	1,227	1,406	1,572
Net gain	122	189	179	166	(27)
Enrollment at December 31 st	1,038	1,227	1,406	1,572	1,545

C. Reinsurance

As of December 31, 2015, the Plan had an excess-of-loss reinsurance contract in effect with PartnerRe America Insurance Company, an insurer domiciled in Delaware. The contract's effective date was January 1, 2015 to December 31, 2015.

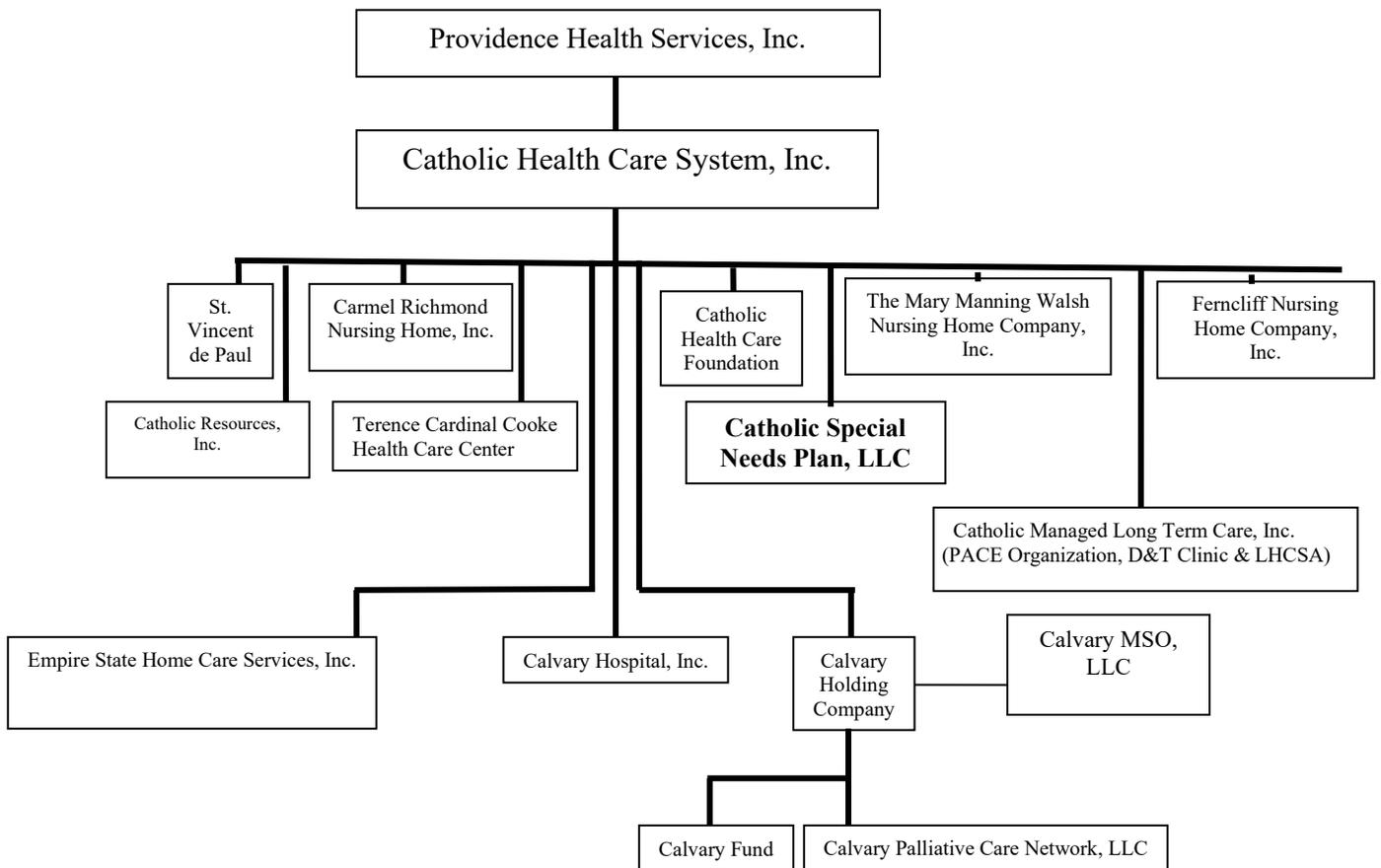
The reinsurance coverage in effect as of December 31, 2015, was as follows:

<u>Covered member type:</u>	<u>Medicare</u>
Excess-of-loss retention:	\$300,000 per member per agreement period
Policy limit:	\$2,000,000 per member per agreement period

The contract complies with the provisions of NYIL Section 1308(a)(2)(A)(i) and (ii) relative to the insolvency provisions.

D. Holding Company System

The Plan is a wholly-owned subsidiary of Catholic Health Care System, Inc. The following chart depicts the Plan's holding company system as of December 31, 2015:



Catholic Health Care System, Inc. is the direct parent of Catholic Special Needs Plan, LLC.

Catholic Health Care System, Inc. is owned by Providence Health Services, Inc., and therefore, it is considered to be part of a holding company system.

Part 98-1.16(e) of the Administrative Rules and Regulations of the Department of Health (10 NYCRR 98-1.16(e)) states in part:

“(e) Every controlled MCO shall file with the commissioner such reports or material as the commissioner, with the advice of the superintendent, may direct for the purpose of disclosing information on the operations within the holding company system which materially affect the operations, management or financial condition of the MCO.”

The Plan acknowledged that it is indeed a member of a holding company system. However, it was noted that the Plan answered “No” on the General Interrogatories page of its filed 2015 annual statement when asked whether the reporting entity is “a member of an insurance holding system consisting of two (2) or more affiliated persons, one (1) or more of which is an insurer”. Additionally, the Plan failed to comply with Part 98-1.16(e) of the Administrative Rules and Regulations of the Department of Health when it did not submit the requisite holding company filings during the exam period.

It is recommended that CSNP accurately report all information in its filed annual statement.

A similar recommendation was cited in the prior report on examination.

It is also recommended that CSNP commence filing its holding company registration statement in accordance with Part 98-1.16(e) of the Administrative Rules and Regulations of the Department of Health.

Part 98-1.10(c) of the Administrative Rules and Regulations of the Department of Health (10 NYCRR 98-1.10(c)) states in part:

“(b) Thirty days prior notice to the commissioner and, except in the case of a PHSP, HIV SNP or PCPCP, the superintendent, is required before entering into the following transactions between a controlled MCO and any person in its holding company system: a reinsurance agreement or an agreement for rendering services on a regular or systematic basis, other than medical or management services that require prior approval under this Subpart. Such transactions may become effective unless the commissioner or the superintendent has disapproved the transaction within such period.”

During the examination, it was noted that the PACE Program (ArchCare Senior Life/Catholic Managed Long-Term Care) received charges for payroll costs from CSNP. However, when the examiner requested the agreement under which those charges were incurred, CSNP was

unable to provide any such documentation. The lack of documentation is discussed in Section J of this Report.

It is recommended that the Plan comply with the requirements of Part 98-1.10(c) of the Administrative Rules and Regulations of the Department of Health with regard to transactions with members in its holding company system.

E. Significant Operating Ratios

The underwriting ratios presented below are on an earned-incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratio</u>
Claims incurred	\$ 155,934,794	79.07%
Claims adjustment expenses incurred	1,623,769	0.82%
General administrative expenses incurred	40,992,285	21.61%
Net underwriting loss	<u>(1,330,710)</u>	<u>(0.67)%</u>
Premiums earned	\$ <u>197,220,138</u>	<u>100.00%</u>

F. Report on Examination

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report.”

It should be noted that CSNP was unable to provide any evidence of such signed statement for one (1) of its Managers.

It is recommended that CSNP comply with the requirements of Section 312(b) of the New York Insurance Law by obtaining signed statements from each Manager confirming that such member has received and read the report on examination.

G. Administrative and Consulting Services Agreement

During the examination period, CHCS had an approved administrative and consulting services agreement to provide CSNP with the following services: human resources, information technology, supply chain, finance business development and project management legal services HIPAA and compliance.

Part 98-1.5(b) of the Administrative Rules and Regulations of the Department of Health (10 NYCRR 98-1.5(b)) states in part:

“(b) In order to obtain a certificate of authority to operate an MCO, a person shall file an application on forms prescribed by the commissioner. The application shall be signed... filed and shall set forth or be accompanied by the following...

(1) copies of the basic organizational documents of the applicant, e.g., the certificate of incorporation, bylaws, articles of organization, partnership agreement, trust agreement, operating agreement or other applicable documents and agreements, and all amendments thereto...”

During the examination period, CSNP had implemented the Second and Third Amendments to its Operating Agreement, effective June 25, 2009 and January 1, 2010, respectively, without the Plan obtaining the required approval from the New York State Department of Health.

It is recommended that CSNP comply with Part 98-1.5(b) of the Administrative Rules and Regulations of the Department of Health by filing for approval with the Commissioner, a description of the changes in any information provided in the application for its certificate of authority.

H. Conflict of Interest Policy

CSNP generally follows the standards, policies and procedures of its Parent, in regard to a code of conduct. Conflict of interest statements which are the responsibility of the Plan's Chief Compliance Officer, are required to be completed by Managers, Officers, committee members and key employees. The Plan's conflict of interest policy dictates that each Manager, officer, committee member and key employees complete, sign and submit to the Chief Compliance Officer, a certification identifying to the best of the individual's knowledge any entity of which such person is an officer, director, trustee, member, owner, or employee and with which the Plan has a relationship, and any transaction in which the person may have a conflicting interest whether actual or perceived. Such certifications shall be made prior to appointment (in the case of Managers, officers, committee members) or within 30 days (in the case of a key employee) and annually thereafter. A review of the conflict of interest filings for the examination period was performed. The review revealed the following:

- For calendar year 2013, three (3) Managers failed to file conflict of interest statements.
- For calendar year 2014, one (1) Manager failed to file a conflict of interest statement.

It is recommended that all conflict of interest statements required to be signed by each Manager, Officer, committee member and key persons, be signed and filed with the Plan's Chief Compliance Officer on an annual basis.

The Plan's Conflict of Interest Policy's - *Revision History* section - dated March 2014, indicated the following:

“Clarified in a footnote that electronic signatures as well as “wet signatures” on conflict of interest statements are acceptable under the policy.”

It should be noted that the Plan’s actual Conflict of Interest Policy was never updated to reflect such change.

It is recommended that the Plan revise its Conflict of Interest Policy to reflect its adoption of the use of electronic signatures for conflict of interest disclosures.

A similar recommendation was cited in the prior report on examination.

I. Accounts and Records

During the course of the examination, it was noted that the Plan’s treatment of certain items was not in accordance with annual statement instructions and/or Department guidelines. A description of such items is as follows:

1. As noted previously in “Item D” of this report, the Plan is a wholly-owned subsidiary of Catholic Health Care System, Inc. It should be noted that several other affiliated entities (“affiliates”) of the Plan also have business transactions with the Plan. These affiliates are participating providers functioning as nursing homes located in the Plan’s service area. The Plan makes claim payments on behalf of these nursing homes.

The 2015 NAIC Annual Statement Instructions for health companies states, in part:

“...PART 1- ORGANIZATION CHART...Attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and reporting entities; and other affiliates...”

PART 2- SUMMARY OF INSURER’S TRNSACTIONS WITH ANY AFFILIATES – This schedule was designed to provide an overview of transactions among insurance holding company system members. It is intended to demonstrate the scope and direction of major fund and/or surplus flows throughout the system... All insurer and reporting entity members of the holding company system shall

prepare a common schedule for inclusion in each of the individual annual statement...

Include transactions between insurers; and between insurers and non-insurers within the holding company system..."

The examiner's review of the Plan's filed Schedule Y- *Information Concerning Activities of Insurer Members of a Holding Company Group* - for calendar year 2015 revealed that the Plan filed an incomplete organization chart; the Schedule only listed transactions of the Parent and the Plan; transactions with any of its affiliates were not listed.

It is recommended that the Plan prepare and file Schedule Y- *Information Concerning Activities of Insurer Members of a Holding Company Group* - in accordance with the requirements of the NAIC Annual Statement Instructions.

It is also recommended that the Plan exercise greater care when preparing its annual statements and schedules.

A similar recommendation was cited in the prior report on examination.

During the examination period, CSNP received contributions in the amounts of \$5.6M and recorded "Grants" as an aggregate write-in for other income or expenses in the Plan's financials, without which, the Plan would have reported a net loss.

SSAP No.72 states, in part:

"Unassigned funds (surplus) represents the undistributed and unappropriated amount of surplus..."

Unassigned funds (surplus) is comprised of the cumulative effect of... other gains and losses in surplus not specifically identified elsewhere..."

It is recommended that all future capital contributions, i.e. cash grants, from CHCS to CSNP be recorded pursuant to SSAP No. 72.

It is also recommended that CSNP notify the Department and the New York State Department of Health of any and all capital contributions.

J. Insurance Regulation 152 (11 NYCRR 243) - Record Retention

Parts 243.2(a) and (b) of Insurance Regulation 152 (11 NYCRR 243) states, in part:

“(a)... every insurer shall maintain its claims, rating, underwriting, marketing, complaint, financial, and producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provision of this Part.

(b) Except as otherwise required by law or regulation, an insurer shall maintain:

(1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer...

(8) Any other-record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

During the examination, it was noted that the PACE Program (ArchCare Senior Life/Catholic Managed Long-Term Care) received charges for payroll costs from CSNP. However, when the examiner requested the agreement under which those charges were incurred, CSNP was unable to provide any such documentation.

It is recommended that CSNP comply with Parts 243.2(a) and (b) of Insurance Regulation 152 and maintain the appropriate records for all of its areas of operations.

Additionally, it is recommended that CSNP submit the aforementioned agreement to the Department for review.

Finally, it is recommended that the Plan not enter into any agreement with those companies in its holding company system, until said agreement has been approved by the Department and New York State Department of Health, prior to implementation.

3. **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, and surplus as of December 31, 2015, as contained in the Plan's 2015 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Plan's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement.

Independent Accountants

The firm O'Connor, Davies LLP ("OCD") was retained by the Plan to audit its combined statutory basis statements of financial position as of December 31st of each year during the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

OCD concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Plan at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

A. Balance SheetAssets

Cash, cash equivalents and short-term investments	\$ 11,468,634
Uncollected premiums and agents balance in the course of collection	125,640
Accrued retrospective premiums	291,564
Amounts recoverable from reinsurers	64,474
Receivables from parent, subsidiaries and affiliates	2,202,899
Health care and other amounts receivable	705,468
Other receivables	<u>858</u>
Total assets	<u>\$ 14,859,537</u>

Liabilities

Unpaid claims	\$ 4,941,975
Accrued medical incentive pool and bonus amounts	308,966
Aggregate health policy reserves	330,000
Premiums received in advance	848,495
General expenses due or accrued	1,856,086
Amounts due to parent, subsidiaries and affiliates	<u>801,186</u>
Total liabilities	<u>\$ 9,086,708</u>

Capital and surplus

NYS contingent reserve	\$ 5,759,976
Surplus notes	2,000,000
Unassigned funds (surplus)	<u>(1,987,147)</u>
Total capital and surplus	<u>5,772,829</u>
Total liabilities, capital and surplus	<u>\$ 14,859,537</u>

Note 1: The Plan is incorporated as a not-for-profit organization and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Note 2: No liability appears on the above statement for loans in the amount of \$2,000,000 and accrued interest thereon in the amount of \$991,000. The loans were granted pursuant to the provisions of Section 1307 of the New York Insurance Law. As provided in Section 1307 of the New York Insurance Law, repayment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent of Financial Services of the State of New York.

B. Statement of Revenue, Expenses and Capital and Surplus

The Plan's capital and surplus increased by \$1,478,154 during the five-year examination period, January 1, 2011 through December 31, 2015, detailed as follows:

Revenue

Net premium income \$ 197,220,138

Hospital and Medical Expenses

Hospital (inpatient and outpatient) benefits	\$ 49,534,474
Medical benefits	20,520,632
Other professional services	53,090,964
Prescription drugs	31,314,944
Incentive pool, withhold adjustments and bonus amounts	1,862,578
Net reinsurance recoveries	<u>(388,798)</u>
Total medical and hospital expenses	\$ 155,934,794

Administrative Expenses

General administrative expenses	<u>42,616,054</u>
Total underwriting expenses	<u>198,550,848</u>
Net underwriting loss	\$ (1,330,710)
Net investment income earned	106,511
Grants from CHCS	<u>5,644,883</u>
Net income	\$ <u>4,420,684</u>

Changes in Capital and Surplus

Capital and surplus, per report on examination, as of December 31, 2010			\$ 4,294,675
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,420,684		
Change in non-admitted assets	192,531		
Change in surplus notes	<u> </u>	<u>2,750,000</u>	
Net gain in capital and surplus			<u>1,478,154</u>
Capital and surplus, per report on examination, as of December 31, 2015			\$ <u>5,772,829</u>

4. UNPAID CLAIMS AND UNPAID CLAIMS ADJUSTMENT EXPENSES

The examination liability of \$4,941,975 is the same the amount reported by the Plan in its filed annual statement as of December 31, 2015.

The examination analysis of the accrued other medical liability was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and in its filed annual statements as verified during the examination.

The examination reserve was based upon actual payments made through December 31, 2010, with an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Plan's past experience in projecting the ultimate cost of claims incurred.

5. SUBSEQUENT EVENTS

Subsequent to the examination date, CSNP reported an impairment of \$123,622 in its September 30, 2017 Quarterly Statement filing. On December 21, 2017 NYSDOH issued a Statement of Deficiency to CSNP for its failure to meet its solvency requirements in accordance with 10 NYCRR 98-1.11(e) for the quarter ending September 30, 2017. On January 3, 2018, CSNP provided a Plan of Correction (“POC”) to NYSDOH. According to the POC, CHCS granted \$123,622 to CSNP to cover the impairment reported in the September 30, 2017 Quarterly Statement filing.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business and fulfills its contractual obligations to enrollees and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The review was directed at the practices of the Plan relative to agents’ licensing and terminations. In determining the scope of this review, the examiner took into consideration that the Plan writes only Medicare Advantage and therefore most of its market conduct activities are under the regulatory purview of CMS rather than under the purview of the Department.

Section 2112(d) of the New York Insurance Law states, in part:

“(d) Every... health maintenance organization... or authorized representative of the ...health maintenance organization... doing business in this state shall, upon termination of the certificate of appointment... of any insurance agent... licensed

in this state, or upon termination for cause for activities as set forth in subsection (a) of section two thousand one hundred ten of this article, of the certificate of appointment, of employment, of a contract or other insurance business relationship with any insurance producer, file with the superintendent within thirty days a statement, in such form as the superintendent may prescribe, of the facts relative to such termination for cause...”

The examination included a review of how the Plan licenses and terminates its sales agents. During the examination period, it was noted that two (2) agents who had terminated employment with the Plan were listed as active on the Department’s licensing system. The Plan was informed of its failure to notify the Department of said terminations. Subsequent to the notification, the Plan took corrective action to have the noted agents terminated on the Department’s licensing system.

It is recommended that the Plan comply with the requirements of Section 2112(d) of the New York Insurance Law by filing all notices of agents’ termination with the Department, in the prescribed manner.

A similar recommendation was cited in the prior report on examination.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2010, contained the following twelve (12) comments and recommendations (page number refers to the prior report on examination):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Holding Company System</u>	
1.	It is recommended that the Plan accurately report all information in its filed annual statement. <i>The Company has not complied with this recommendation. A similar recommendation is included in this report.</i>	10
	<u>Disaster Response and Business Continuity Plans</u>	
2.	It is recommended that the Plan comply with the requirements of Circular Letter No. 2 (2010) and file its Disaster Response Plan, Disaster Response Questionnaire, and Business Continuity Plan Questionnaire on an annual basis with the Department. <i>The Company has complied with this recommendation.</i>	10
	<u>Conflict of Interest Policy</u>	
3.	It is recommended that the Plan revise its Conflict of Interest Policy to reflect its adoption of using electronic signatures for conflict of interest disclosures. <i>The Company has not complied with this recommendation. A similar recommendation is included in this report.</i>	11
	<u>Insurance Regulation No. 118 (11 NYCRR 89.0)</u>	
4.	It is recommended that the Plan comply with the Part 89.5(e)(2) of Department Regulation No. 118 and attach the required statement with its annual filings. <i>The Company has complied with this recommendation.</i>	12

ITEM NO.**PAGE NO.**Accounts and Records

5. It is recommended that the Plan comply with the requirements of Section 1307(c) of the New York Insurance Law and include a footnote for all outstanding Section 1307 loans and their respective interest amounts in its filed annual statements. 12

The Company has complied with this recommendation.

6. It is recommended that the Plan implement procedures to have the Statement of Actuarial Opinion prepared and signed by a qualified health actuary as defined in the NAIC Annual Statement Instructions. 13

The Company has complied with this recommendation.

7. It is recommended that the Plan, when filing its Management's Discussion and Analysis, comply with the requirements of the NAIC Annual Statement Instructions. 14

The Company has complied with this recommendation.

8. It is recommended that the Plan prepare and file Schedule Y- *Information Concerning Activities of Insurer Members of a Holding Company Group* - in accordance with the requirements of the NAIC Annual Statement Instructions. 15

The Company has not complied with this recommendation. A similar recommendation is included in this report.

9. It is also recommended that the Plan exercise greater care when preparing its annual statements and schedules thereof. 15

The Company has not complied with this recommendation. A similar recommendation is included in this report.

Unpaid Claims Adjustment Expenses

10. It is recommended that the Plan establish a reserve for the liability of expenses associated with the administrative expenses for processing claims. 19

The Company has complied with this recommendation.

ITEM NO.**PAGE NO.**Agents' Licensing and Terminations

11. It is recommended that the Plan comply with the requirements of Section 2112(a) of the New York Insurance Law and file certificate of appointments with the Department for all employed sales agents. 21

The Company has complied with this recommendation.

12. It is further recommended that the Plan comply with the requirements of Section 2112(d) of the New York Insurance Law and file the required statement regarding agent termination with the Department within thirty days of termination. 21

The Company has not complied with this recommendation. A similar recommendation is included in this report.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It is recommended that the Plan include all Managers at year-end in its corresponding Annual Statements.	6
ii. It is recommended that CSNP appoint its Managers in accordance with its by-laws.	8
iii. It is also recommended that CSNP comply with Section 5.7 of its by-laws by ensuring that its Managers hold annual meetings in January.	8
B. <u>Holding Company System</u>	
i. It is recommended that the CSNP accurately report all information in its filed annual statement.	12
ii. It is also recommended that CSNP commence filing its holding company registration statement in accordance with Part 98-1.16(e) of the Administrative Rules and Regulations of the Department of Health.	12
iii. It is recommended that the Plan comply with the requirements of Part 98-1.10(c) of the Administrative Rules and Regulations of the Department of Health with regard to transactions with members in its holding company system.	13
C. <u>Report on Examination</u>	
It is recommended that CSNP comply with the requirements of Section 312(b) of the New York Insurance Law by obtaining signed statements from each Board member confirming that such member has received and read the report on examination.	14
D. <u>Administrative and Consulting Services Agreement</u>	
It is recommended that CSNP comply with Part 98-1.5(b) of the Administrative Rules and Regulations of the Department of Health by filing for approval with the Commissioner, a description of the changes in any information provided in the application for its certificate of authority.	14

ITEM**PAGE NO.**

- E. **Conflict of Interest Policy**
- i. It is recommended that all conflict of interest statements required to be signed by each Manager, Officer, committee member and key persons, be signed and filed with the Plan's Chief Compliance Officer on an annual basis. 15
 - ii. It is recommended that the Plan revise its Conflict of Interest Policy to reflect its adoption of the use of electronic signatures for conflict of interest disclosures. 16
- F. **Accounts and Records**
- i. It is recommended that the Plan prepare and file Schedule Y- *Information Concerning Activities of Insurer Members of a Holding Company Group* - in accordance with the requirements of the NAIC Annual Statement Instructions. 17
 - ii. It is also recommended that the Plan exercise greater care when preparing its annual statements and schedules. 17
 - iii. It is recommended that all future capital contributions, i.e. cash grants from CHCS to CSNP be recorded pursuant to SSAP No. 72. 17
 - iv. It is also recommended that CSNP notify the Department and the New York State Department of Health of any and all capital contribution. 18
- G. **Record Retention**
- i. It is recommended that CSNP comply with Parts 243.2(a) and (b) of Insurance Regulation 152 and maintain the appropriate records for all of its areas of operations. 18
 - ii. Additionally, it is recommended that CSNP submit the aforementioned agreement to the Department for review. 18
 - iii. Finally, it is recommended that the Plan not enter into any agreement with those companies in its holding company system, until said agreement has been approved by the Department, prior to use. 18

ITEM**PAGE NO.**H. **Agents' Licensing and Terminations**

It is recommended that the Plan comply with the requirements of Section 2112(d) of the New York Insurance Law by filing all notices of agents' termination with the Department, in the prescribed manner.

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NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Victor Estrada

as a proper person to examine the affairs of

Catholic Special Needs Plan, LLC

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

HMO

with such other information as he shall deem requisite.

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

this 17th day of May, 2017

MARIA T. VULLO
Superintendent of Financial
Services

By:



Lisette Johnson
Bureau Chief
Health Bureau

