REPORT ON EXAMINATION

OF

ROCHESTER AREA HEALTH MAINTENANCE ORGANIZATION, INC.

AS OF

DECEMBER 31, 2007

DATE OF REPORT	**JANUARY 27, 2010**
EXAMINER	**JEFFREY USHER**

TABLE OF CONTENTS

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

January 27, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and acting in compliance with the instructions contained in Appointment Number 22769, dated June 1, 2009, attached hereto, I have made an examination into the financial condition and affairs of the Rochester Area Health Maintenance Organization, Inc., a not-for-profit health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the New York Public Health Law as of December 31, 2007. The following report thereon is respectfully submitted.

The examination was conducted at the home office of Rochester Area Health Maintenance Organization, Inc. located at 625 State Street, Schenectady, New York

Wherever the designations, “RAHMO” or “HMO”, appear herein, without qualification, they should be understood to indicate the Rochester Area Health Maintenance Organization, Inc.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2004. This examination covers the three-year period from January 1, 2005 through December 31, 2007. Transactions occurring subsequent to December 31, 2007 were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2007, in accordance with statutory accounting principles (SAP), as adopted by this Department, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the HMO'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* (NAIC):

History of the HMO
Management and controls
Corporate records
Fidelity bonds and other insurance
Reinsurance
Territory and plan of operations
Growth of the HMO
Accounts and records
Loss experience
Financial statements

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.

A review was also made to ascertain what action, if any, was taken by the HMO with regard to comments and recommendations in the prior report on examination.

Concurrent financial examinations of affiliates, MVP Health Plan, Inc., MVP Health Insurance Company, MVP Health Services Corporation and Preferred Assurance Company, Inc. were also made as December 31, 2007. Separate financial reports on examination of such RAHMO affiliates have been issued.

In addition, a concurrent market conduct examination was conducted of RAHMO and its affiliate, Preferred Assurance Company, Inc. as of December 31, 2007. A separate combined report on examination will be issued relative such market conduct examination.

2. DESCRIPTION OF HMO

Rochester Area Health Maintenance Organization, Inc. (RAHMO), during the examination period conducted business under the name, "Preferred Care". The HMO provides prepaid comprehensive health care coverage for its enrolled members. RAHMO was incorporated in New York State as a not-for-profit corporation on August 18, 1977. On October 18, 1979, RAHMO became federally qualified as a health maintenance organization (HMO) under Title XIII of the Public Health Service Act. Effective November 1, 1979, RAHMO received authority to conduct business pursuant to Article 44 of the New York Public Health Law.

RAHMO is an IPA model HMO which contracts with one or more independent practice associations (IPA) to provide health care services to its members. Physicians are members of the IPA and are reimbursed for services rendered through a fee schedule or on a capitated basis.

A. Management and Controls

Pursuant to the HMO's charter and by-laws, management of the HMO is to be vested in a board of directors consisting of not less than twelve, nor more than twenty-five directors. As of December 31, 2007, the board of directors consisted of twenty-three members as set forth below:

Name and Residence	Principal Business Affiliation
Donald A. Bentrovato, MD Schenectady, New York	Urologist, Schenectady Urological Associates
Richard D'Ascoli, MD Schenectady, New York	Orthopedic Surgeon, Schenectady Regional Orthopedics
Richard F. Gullott, MD Scotia, New York	Internal Medicine, Richard F. Gullott, MD PC
Michael S. Schneider, MD Rochester, New York	Internal Medicine, Rochester Medical Center
Joseph J. Schwerman, MD Queensbury, New York	Family Practitioner, Hudson Headwaters Health Network
Gary Bonadonna Webster, New York	Trade Union Manager, Rochester Joint Board, Unite Here
Burt Danovitz Utica, New York	Executive Director, Resource Center for Independent Living
Karen B. Johnson Schenectady, New York	Director of Development, Proctors Theatre

Name and Residence	Principal Business Affiliation
William J. Reddy Rochester, New York	President, Reddy and Son Development, LLC
Leland C. Tupper Schenectady, New York	Treasurer, MVP Health Plan, Inc.
Joseph Heavey Poughkeepsie, New York	Administrator, The Children's Medical Group
Alan P. Goldberg Albany, New York	President, First Albany Capital
Herschel Lessin, MD Poughkeepsie, New York	Pediatrician, Children's Medical Group, PLLC
Ernest Levy, MD Cooperstown, New York	Neurosurgeon, Fox Care Center, Oneonta, NY
Michael Copeland Rochester, New York	Human Resource Manager, Alstom Signaling Inc.
Jon K. Rich Alplaus, New York	Board Member, MVP Health Service Corporation
Arthur J. Roth Loudonville, New York	Accountant, Hodgson Russ, LLP
Joseph DePaolis Rochester, New York	Consultant
Murray M. Jaros, Esq. Niskayuna, New York	Attorney, New York State Association of Towns
Wilfred J. Schrouder Penn Yan, New York	Retired
Gerald E. Van Strydonck Fairport, New York	Retired
Anthony Costanza Webster, New York	Retired, M&T Bank
Norma C. Westcott Niskayuna, New York	Consultant, Westcott Enterprises, Inc.

The minutes of all meetings of the board of directors, and committees thereof, held during the examination period, were reviewed. During the examination period, board meetings were generally well attended. All directors attended at least one-half of the meetings they were eligible to attend.

The Plan, as of December 31, 2007 was in compliance with the board requirements of Part 98-1.11(g)(1) (10 NYCRR 98-1.11(g)) of the Administrative Rules and Regulations of the New York Health Department.

The principal officers of the HMO as of December 31, 2007 were as follows:

Name	Title
David W. Oliker	President and Chief Executive Officer
Thomas Combs	Executive Vice-President and Chief Financial Officer
Denise Gonick, Esq.	Executive Vice-President and Chief Legal Officer

B. Territory and Plan of Operation

The HMO's service area, as stated in its certificate of authority as of December 31, 2007, covered the following nine counties in New York State:

Genesee	Ontario	Wayne
Livingston	Orleans	Wyoming
Monroe	Seneca	Yates

RAHMO contracts annually with Genesee Region Preferred Health Network IPA, Inc., d/b/a Preferred Health Network (PHN), a wholly-owned subsidiary of Preferred Care, Inc., and the Greater Rochester Independent Practice Association, Inc., (GRIPA) (collectively the IPAs) to provide physician services to members. The IPAs are compensated for their services on a capitated basis adjusted for the age, sex or demographic location of their members. The IPAs are at risk for hospital inpatient, outpatient, and physician services. The IPAs withhold a percentage of the amounts paid to participating physicians for hospital inpatient, outpatient and physician services for accumulation in a risk pool. As of December 31, 2007, the IPAs withheld $1,191,264 from its participating physicians. Of such amount, $92,573 was subsequently paid to eligible physicians and $931,468 was taken into RAHMO's income in 2008.

The following table summarizes the percentages of withhold as of December 31, 2007, by each contracted IPA:

IPA	Commercial	Medicare	Medicaid
GRIPA	10.0%	7.5%	N/A
PHN	15.0%	7.5%	N/A
Medicaid	N/A	N/A	10.0%
Lifetime	10.0%	0.0%	N/A

Losses beyond the withhold pool are absorbed by RAHMO. PHN provided service to 61% and 64% of RAHMO's members in 2007 and 2006, respectively. GRIPA provided service to 24% and 23% of RAHMO's members in 2007 and 2006, respectively. The remaining 15% and 13% of RAHMO's membership in 2007 and 2006, respectively, were provided service by the other risk arrangements. As of January 1, 2008, RAHMO terminated its relationship with GRIPA. RAHMO subsequently contracted directly with some of the GRIPA providers. Other GRIPA providers became members of PHN, thus continuing their relationship with RAHMO.

The HMO also contracts with hospitals and other providers in its operating area for inpatient, outpatient and other services. Rates for inpatient services (excluding Medicare and Medicaid) are either negotiated with each hospital or paid at the negotiated rate through RAHMO's national network of contracted providers. Medicare inpatient services are reimbursed based on rates developed under the Prospective Payment System issued by the Centers for Medicare and Medicaid Services. Medicaid inpatient services are reimbursed based on rates established by the State of New York in accordance with the Health Care Reform Act of 2000. Medicare and Medicaid inpatient, hospital outpatient and ancillary service payments are based on contractual arrangements with hospitals and other providers, which include risk-sharing arrangements, as well as fee-for service arrangements.

The HMO conducts business only in New York State with reported premium revenue of $1,006,809,676 in 2007.

Premiums written during the three-year examination period was as follows:

	2005	2006	2007
Premiums Written	786,955,046	899,483,367	$1,006,809,676

The HMO writes the following lines of business: HMO, Point of Service (POS), Medicare, Medicaid, and Healthy NY. It should be noted that the out-of-network portion of the POS line of business is handled by the Preferred Assurance Company (PAC), a health insurer, licensed pursuant to Article 43 of New York Insurance Law and an affiliate of RAHMO.

The following is a breakdown of RAHMO's enrollment, by line of business for the period covered by this examination:

	HMO	POS	Healthy New York	Medicare Advantage Including Part D	Medicare Advantage Excluding Part D	Medicaid	Total
2005	98,517	12,559	1,685	57,046	0	14,474	184,281
2006	109,492	15,168	61,530	17,578	36,731	0	240,499
2007	108,833	14,446	897	28,164	35,888	18,446	206,674

During the examination period RAHMO solicited business as a direct writer, utilizing RAHMO employees and in-house licensed agents. The HMO also contracted with licensed brokers for the production of business.

C. Reinsurance

The HMO did not assume any business during the examination period.

The following is a description of the HMO's ceded reinsurance program in effect at December 31, 2007:

Lines of Business Covered	Type of Cession	Limits
Commercial and Medicare		
Eligible healthcare services (authorized reinsurer)	Excess of Loss	90% excess of $300,000 of loss per member. Maximum benefit payable per covered member, per policy year is $2,000,000.

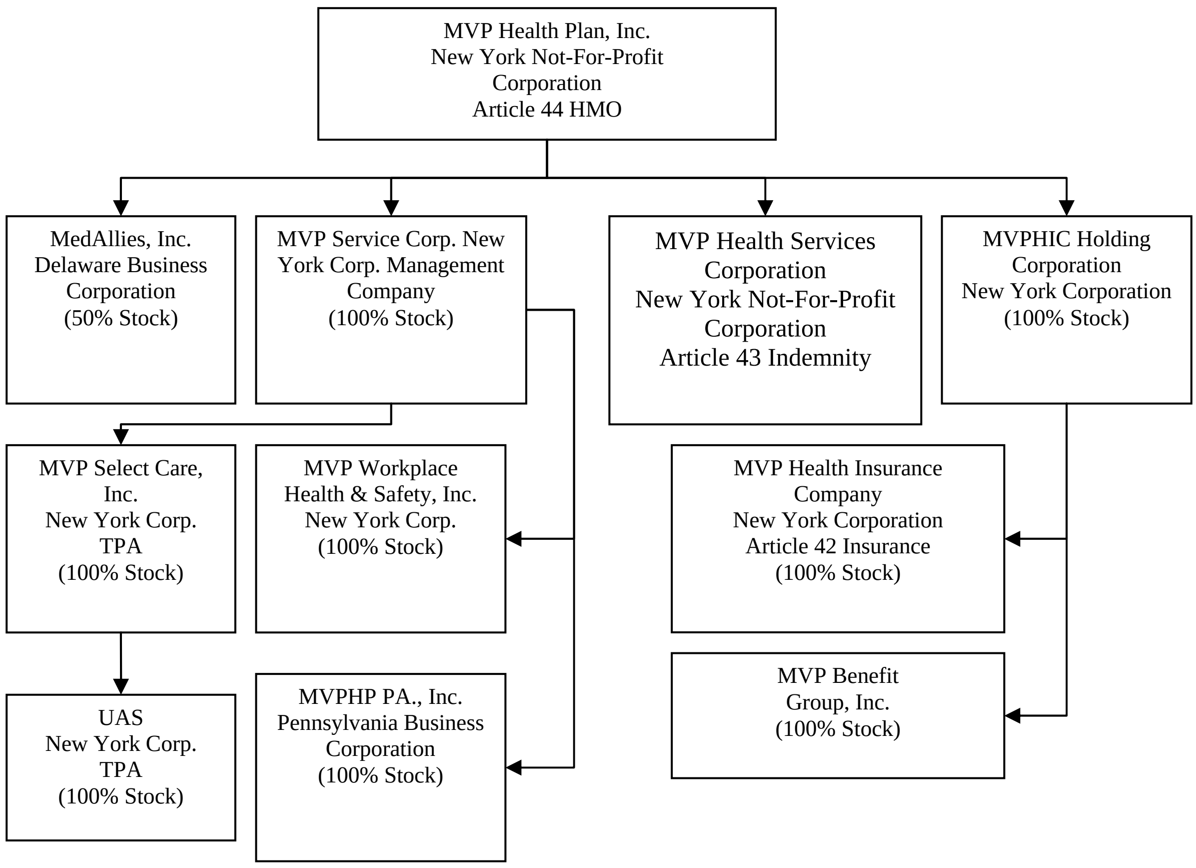
During the examination period, the HMO also maintained a stop-loss reinsurance contract with the New York Department of Health relative to individual Medicaid enrollees. Under the terms of the contract, the New York Department of Health, on behalf of the State of New York, will reimburse the HMO for a portion of the costs incurred for inpatient hospital services calculated at Medicaid rates, for claims in excess of $50,000, subject to 20% co-insurance. New York State assumes full-risk for costs in excess of $250,000. For its Healthy New York and Direct Pay members, RAHMO participates in the New York State sponsored stop-loss program.

The above reinsurance agreements contained all the required standard clauses, including the insolvency clause, required by Section 1308 of the New York Insurance Law.

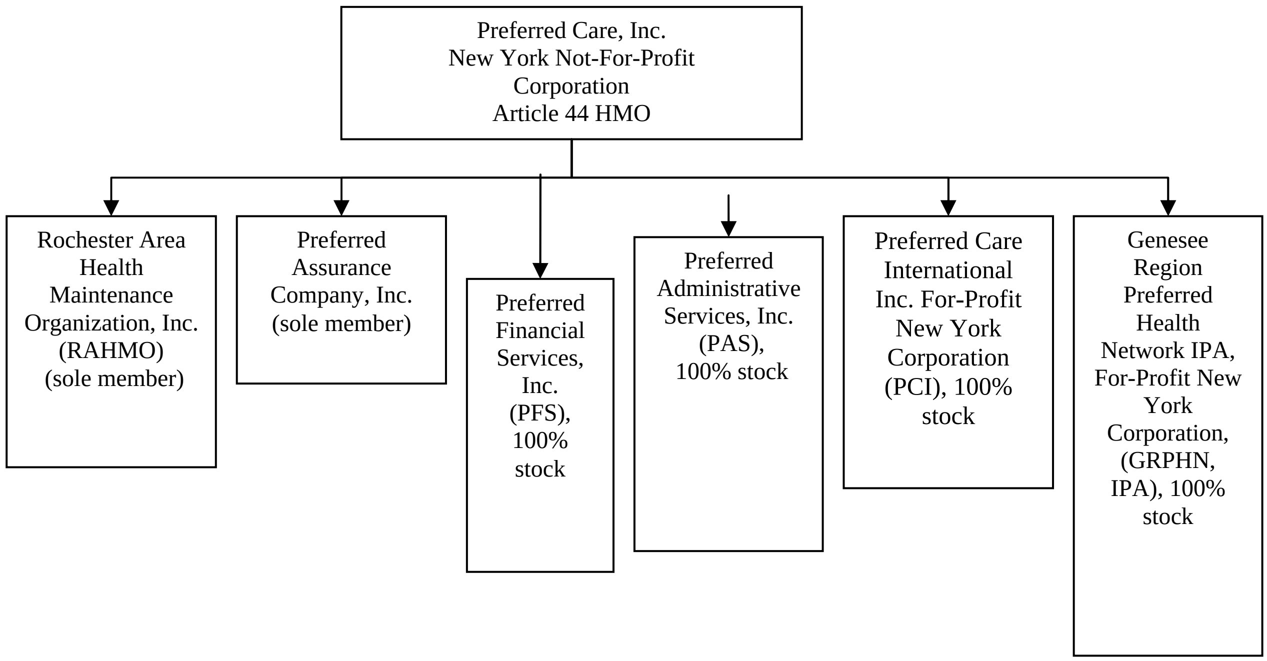
D. Holding Company System

The HMO is a wholly-owned subsidiary of MVP Health Care, Inc. (Ultimate Parent). MVP Health Care, Inc. and its wholly-owned subsidiaries comprise an integrated health benefits insurance and health benefits management company system. On January 6, 2006, MVP Health Plan, Inc. (HMO), a tax exempt New York State not-for profit corporation licensed as a health maintenance organization to deliver health care services in New York and Vermont, combined with Preferred Care, Inc. (PC), a tax-exempt New York State not-for-profit corporation. Under the terms of the agreement and plan of reorganization by and between Preferred Care, Inc. and MVP Health Plan, Inc., the HMO and PC reorganized their respective enterprises under a holding company structure, with the ultimate parent being MVP Health Care, Inc., which now serves as the direct or indirect parent company of all of the former PC subsidiaries and of the HMO and all of its subsidiaries.

The following chart depicts the MVP Health Plan, Inc. holding company system prior to January 2006:



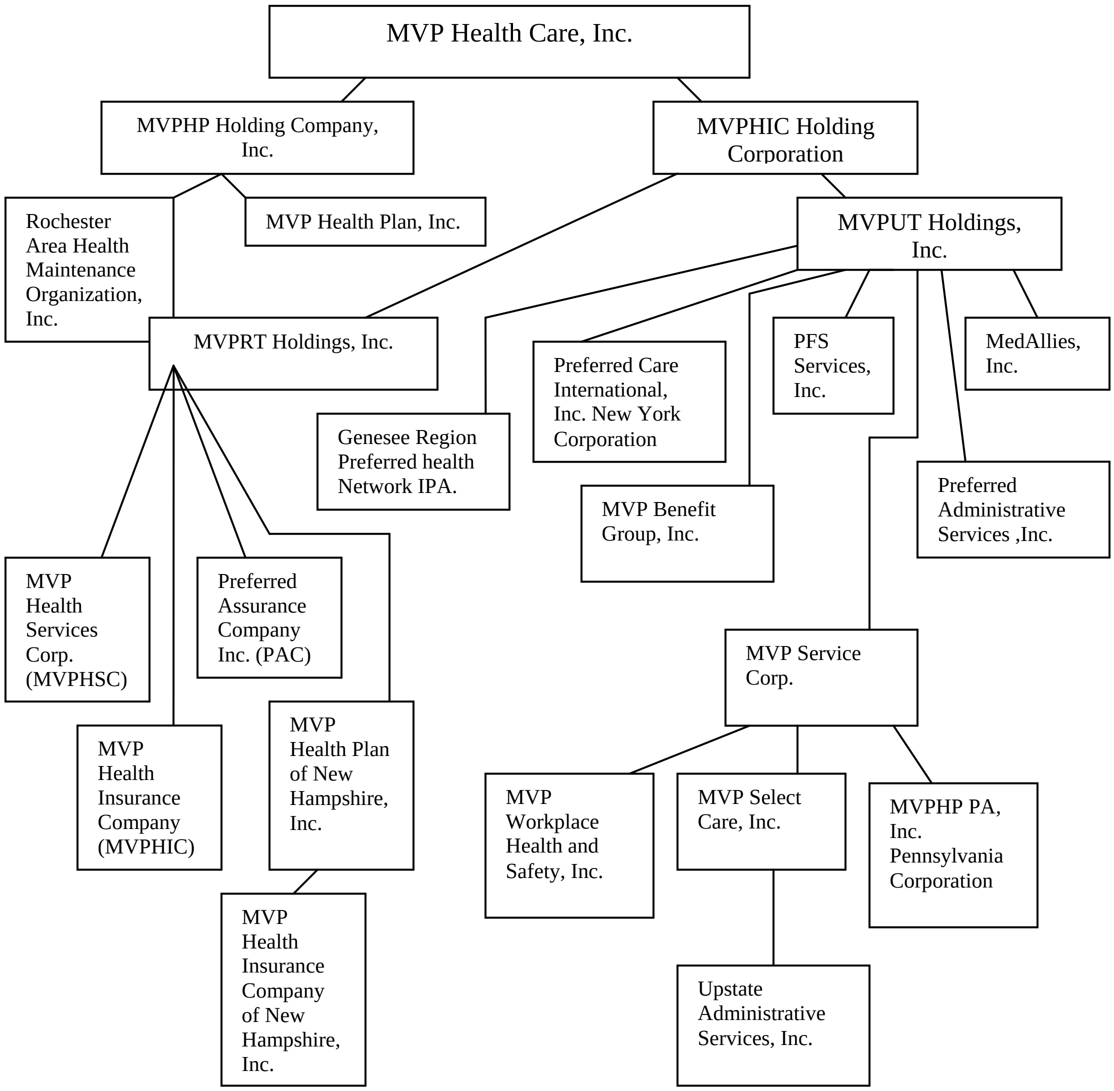
The following chart depicts the Preferred Care, Inc. holding company system prior to January 2006:



As a result of the reorganization of the corporate structure, Rochester Area Health Maintenance Organization, Inc. (RAHMO) and MVP Health Plan, Inc. (MVPHP) became wholly-owned subsidiaries of MVPHP Holding Company, Inc., which in turn is a wholly-owned subsidiary of the ultimate parent, MVP Health Care, Inc.

MVP Health Service Corp., Preferred Assurance Co. Inc., and MVP Health Insurance Company are wholly-owned subsidiaries of MVPRT Holdings, Inc., which in turn is a wholly-owned subsidiary of MVPHIC Holding Corp. MVPHIC Holding Corp. is a wholly-owned subsidiary of the Ultimate Parent, MVP Health Care, Inc.

The following is the organizational chart of MVP Health Care, Inc. (Ultimate Parent) and its subsidiaries subsequent to January 2006 (and as of December 31, 2007):



Rochester Area Health Maintenance Organization, Inc. (RAHMO)

As of December 31, 2007, RAHMO did not have any employees. RAHMO entered into an administrative services agreement with its affiliate, MVP Services Corporation (MVPSC), wherein various services are provided to RAHMO by MVPSC, including, but not limited to: financial, legal, internal operations, management information system, marketing, consulting, utilization review, claims administration, developing, revising, and refining new health care service products, systems, policies and overall administration.

RAHMO is controlled by its sole member, MVPHP Holding Company, Inc., which is a wholly-owned subsidiary of MVP Health Care, Inc., the Ultimate Parent. Preferred Care, Inc. was the sole member of RAHMO, prior to the affiliation with MVP Health Plan, Inc.

MVPHP Holding Company, Inc.

MVPHP Holding Company, Inc. was formed on January 6, 2006, as a not-for-profit corporation; its ultimate parent is MVP Health Care, Inc. As a result of the restructuring that took place in 2006, MVPHP Holding Company, Inc. became the parent company of RAHMO and MVP Health Plan, Inc. As of December 31, 2007, the net worth of RAHMO and MVP Health Plan, Inc. was $183,334,542 and $138,719,155, respectively. MVPHP Holding Company, Inc., as of December 31, 2007, had a consolidated net value of $322,053,697, which is the combined net worth of RAHMO and MVP Health Plan, Inc.

<u>MVPHIC Holding Corporation</u>

MVPHIC Holding Corporation was incorporated on November 22, 2000, pursuant to Section 402 of the New York Business Corporation Law. It was specifically formed to hold the stock of MVP Health Insurance Company (MVPHIC). MVPHIC is a for-profit accident and health insurance company licensed pursuant to Article 42 of the New York Insurance Law in the state of New York. MVPHIC Holding Corporation holds and controls 100% ownership of MVPRT Holdings, Inc. and MVPUT Holdings, Inc. MVP Health Care, Inc., in turn, owns and controls 100% of the stock of MVPHIC Holding Corporation.

MVPHIC Holding Corporation controls five subsidiaries of MVPRT Holdings, Inc. Three of the five subsidiaries are regulated by the New York Insurance Department, as follows: MVP Health Services Corporation, Preferred Assurance Company, Inc., and MVP Health Insurance Company. As of December 31, 2007, MVPRT Holdings, Inc. and MVPUT Holdings, Inc., had a net value of $6,852,493 and $36,076,674, respectively. MVPHIC Holding Corporation valued its investments in MVPRT Holdings, Inc. and MVPUT Holdings, Inc. at $42,929,167, as of December 31, 2007, which is the combined value of MVPRT Holdings, Inc. and MVPUT Holdings Inc.

The structure under reorganization included the addition of two holding company entities, MVPRT Holdings, Inc. (MVPRT) and MVPUT Holdings, Inc. (MVPUT). MVPRT contains subsidiaries which are regulated by various Insurance and Health Departments (New York State Insurance and Health Departments, Vermont Department of Banking, Insurance, Securities and Health Care Administration and the New Hampshire Insurance Department). MVPRT Holdings, Inc. maintains 100% ownership of MVP Health Insurance Company (MVPHIC) and MVP Health Plan of New Hampshire, Inc. and is the parent company of MVP Health Services Corporation (MVPHSC) and Preferred Assurance Corporation (PAC). MVPRT Holdings, Inc. is a wholly-owned subsidiary of MVPHIC Holding Corporation.

MVP Health Plan, Inc. (MVPHP)

MVPHP was incorporated on July 30, 1982, pursuant to Section 402 of the New York Not-For-Profit Corporation Law for the purpose of operating as a health maintenance organization (HMO), as such term is defined in Article 44 of the New York Public Health Law. MVPHP is a federally qualified HMO and operates as an IPA model HMO.

MVP Health Services Corporation (MVPHSC)

MVPHSC is a not-for-profit corporation licensed under Article 43 of the New York Insurance Law. Currently, MVPHSC issues only indemnity dental insurance products. MVPHSC is a subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVPHIC Holding Corporation is a wholly-owned subsidiary of MVP Health Care, Inc.

Preferred Assurance Company, Inc. (PAC)

PAC is licensed to do business within New York State as a non-profit health services corporation pursuant to the provisions of Article 43 of the New York Insurance Law. PAC provides the hospital, medical and other health services coverage for the out-of-network component of RAHMO's point-of-service product in the Rochester metropolitan area. In 2008, PAC marketed preferred provider organization (PPO) and exclusive provider organization (EPO) products. PAC is a subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holding Corporation. MVPHIC Holding Corporation is a wholly-owned subsidiary of MVP Health Care, Inc.

During the period July 1992 through July 1995, RAHMO provided funding to PAC by means of several New York Insurance Law Section 1307 loans. The total amount of the loans and accumulated accrued interest was $7,998,461 and $7,096,000, respectively, as of December 31, 2007.

In a letter dated October 8, 2008 to this Department, RAHMO requested approval to forgive all principal and interest of the Section 1307 (of the New York Insurance Law) loans that it had made and were due from PAC. On November 7, 2008, this Department advised RAHMO that the Department had no objection to the forgiveness of such Section 1307 loans and interest thereon. On November 10, 2008, RAHMO's board of directors approved the forgiveness of the Section 1307 loans provided to PAC and the accumulated accrued interest thereon.

MVP Health Insurance Company, Inc. (MVPHIC)

MVPHIC is a for-profit New York corporation, wholly-owned by MVPHIC Holding Corporation, which is a wholly-owned subsidiary of MVP Health Care, Inc. MVPHIC was incorporated on April 24, 2000. MVPHIC was licensed as an accident and health insurance company pursuant to Article 42 of the New York Insurance Law in June of 2001. MVPHIC underwrites PPO, point-of-service (out of network) and indemnity only products for large and small groups.

MVP Service Corporation (MVPSC)

RAHMO has a management services and consulting agreement, approved by this Department, with its affiliate, MVP Service Corporation, a company owned by MVPUT Holdings, Inc. MVP Service Corporation's employees perform all of the day-to-day operations of RAHMO and charges RAHMO for its share of costs based on a contractual allocation methodology.

MVP Health Plan of New Hampshire, Inc. (MVPHP NH)

MVPHP NH is a wholly-owned subsidiary of MVPRT Holdings, Inc., which is a wholly-owned subsidiary of MVPHIC Holdings, Inc. MVPHP NH is the immediate parent of MVP Health Insurance Company of New Hampshire, Inc. These entities are domestic business corporations incorporated under the New Hampshire revised statutes annotated (RSA) 293-A. MVPHP NH is licensed to operate as a health maintenance organization in the state of New Hampshire.

MVP Select Care, Inc. (Select Care)

Select Care is a for-profit New York corporation, wholly-owned by MVP Service Corporation. Select Care was incorporated in 1987 to provide administrative services to companies that self-insure health care benefits.

MVP Select Care, Inc. owns 100% of Upstate Administrative Services (UAS), a New York corporation licensed as a Third Party Administrator (TPA). UAS' business was fully integrated into Select Care to achieve administrative service efficiencies.

On November 16, 1992, Select Care entered into an administrative services agreement with MVPSC, whereby MVPSC's employees provide all the day-to-day operations of Select Care.

After the execution of the Agreement and Plan of Reorganization by and between Preferred Care, Inc. and MVP Health Plan, Inc., the Ultimate Parent, MVP Health Care, Inc. funded the Greater Rochester Health Foundation (Foundation) pursuant to the New York Not-for-Profit Corporation Law, for the purpose of promoting and improving the delivery, efficiency and quality of health services in the Rochester, New York region.

MVP Health Care, Inc. was funded from the proceeds of an $80,000,000 bank term loan (discussed below) and by cash transfers from the Rochester Area Health Maintenance Organization, Inc. in the amount of $107,000,000, from MVPHP in the amount of $30,000,000 and from Select Care in the amount of $13,500,000. MVP Health Care, Inc. subsequently funded the Foundation with a $200,000,000 cash payment. In addition, MVP Health Care, Inc. is required to contribute an additional amount to the Foundation in the amount of $26,639,000, which is payable on January 6, 2012 and bears interest at 3.5%. The additional contribution, plus interest, is expected to be funded by subsidiaries of MVP Health Care, Inc., including RAHMO.

MVP Health Care, Inc. obtained a five-year $80,000,000 bank term loan for which some of the affiliated companies are guaranteeing repayment of the term loan. The term loan includes restrictive covenants, including fixed charge coverage ratio of 2.00 to 1.00 through December 31, 2007 and 2.25 to 1.00 thereafter; a leverage ratio not to exceed 1.75 to 1.00 for the combined company and a minimum total reserves ratio of not less than 1.50 to 1.00 for its New York Public Health Law Article 44 subsidiaries (MVPHP and RAHMO). The subsidiaries of MVP Health Care, Inc., including

RAHMO, fund the debt service of the term loan. MVP Health Care, Inc. paid back the $80,000,000 term loan in full on November 2, 2007, without penalties.

E. Significant Operating Ratios

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

	Amount	Ratio
Claims incurred	$ 2,304,882,803	85.58%
Claims adjustment expenses incurred	22,864,535	0.85%
Other underwriting expenses incurred	176,043,983	6.54%
Net underwriting gain	189,474,895	7.04%
Premiums earned	$2,693,266,216	100.0%

F. Allocation of Expenses

The following observations were noted relative to the allocation of expenses:

(1) As of December 31, 2007, the HMO had entered into a cost sharing agreement with several affiliated companies. The HMO's portion of shared costs was determined using a cost allocation worksheet which used various drivers to calculate the percentage of cost that is allocated to the participating companies. Examples of such drivers included the number of groups (statistical driver) and corporate projects (judgmental driver). Most of the drivers, except the judgmental drivers, were calculated based on statistical data. The examiner selected three samples of judgmental drivers

samples to check for proper supporting documentation. The HMO could not provide support for the allocation percentages used in the calculation of two out of the three selected samples.

The HMO failed to maintain its expense allocation records in compliance with NAIC Statement of Statutory Accounting Principles No. 70 (SSAP No. 70) and Part 106.6 of Department Regulation No. 30 (11 NYCRR 106.6).

Section 70.6 of SSAP No. 70 states in part:

> "…Where specific identification is not feasible, allocation of expenses should be based upon pertinent factors or ratios such as studies of employee activities, salary ratios or similar analyses."

Part 106.6 of New York Insurance Department Regulation No. 30 (11 NYCRR 106.6) states the following:

> "(a) The methods followed in allocating joint expenses shall be described, kept and supported as set forth under "detail of allocation bases."
>
> "(b) The effects of the application, to each operating expense classification of all bases of allocation shall be shown on records kept in clear and legible form. Such records shall be readily available for examination."

It is recommended that the HMO comply with the requirements of Section 70.6 of SSAP No. 70 and Part 106.6 of New York Insurance Department Regulation No. 30 (11 NYCRR 106.6) by detailing the factors used and maintaining proper records to support such factors and the allocation percentages used.

(2) The expenses reported by RAHMO in its 2007 annual statement, "Underwriting and Investment Exhibit, Part 3 – Analysis of Expenses", were found to be overstated. These expenses included portions that were reallocated to other affiliates and for which RAHMO received credits. Although the expenses of the affiliates were reported correctly on their respective annual statements, RAHMO reported on its annual statement the gross amount of these expenses rather than the net amount. Although the total expenses were accurate the subtotal reported for each of the line expenses was illustrated incorrectly.

Part 105.25(b) of Department Regulation No. 30 (11 NYCRR 105.25(b)) states the following:

> "(b) *Expenses for account of another*. Whenever expenses are paid by one company for account of another, the payments shall not appear among the expenses reported by former, and shall be included by the latter in the same expense classifications if originally paid by it."

It is recommended that RAHMO apply the guidelines of NAIC SSAP No. 70 and Part 105.25(b) of Department Regulation No. 30 (11 NYCRR 105.25(b)) by reporting in its annual statement exhibits only the expenses applicable to it.

(3) The examination revealed that the HMO's costs are charged to various cost centers. A review of the definitions and functions of the cost centers revealed that some of the cost centers have more than one function and the costs should be allocated to more than one expense grouping (e.g., cost containment, claim adjustment, general administrative and/or investment expenses as shown on the Underwriting and Investment Exhibit, "Part 3 – Analysis of Expenses"). The HMO elected to choose what it considered to be the most appropriate expense group and did not separate these costs among the expense groupings.

It is recommended that the HMO apply the guidelines included in NAIC SSAP No. 70 and Department Regulation No. 30 by revising and updating its expense allocation methodology to reflect an appropriate allocation among the proper annual statement expense groupings within the Underwriting and Investment Exhibit of the HMO's annual statement.

G. Abandoned Property Law

The HMO filed its abandoned property reports for each year within the examination period with the State of New York Comptroller's Office, in accordance with the requirements of the New York Abandoned Property Law. However, the HMO failed to publish the names and addresses of persons appearing as the owners of the unclaimed property within such abandoned property reports in major newspapers pursuant to the requirements of Section 1316(3) of the New York Abandoned Property Law.

Section 1316(3) of the New York Abandoned Property Law states the following:

> "Within thirty days following the filing of the report of abandoned property with the comptroller pursuant to subdivision two of this section, the insurer shall cause to be published a list of such abandoned property in the same manner as that prescribed for life insurance companies by section seven hundred two of this chapter."

It is recommended that the HMO comply with the (publishing) notice requirements of Section 1316(3) of the New York Abandoned Property Law.

H. Premium Revenue

A sample review of the earned premiums for small group business (HMO and POS) revealed that the HMO included within its data, all premiums of its large group business. Further reviews revealed that a few small groups were excluded from the small group data. Both of the above oversights were reflected in the written and earned premiums recorded on its filed 2007 annual statement.

It is recommended that the HMO comply with the annual statement instructions with regard to the proper segregation of small and large group premiums.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination and as reported by the HMO as of December 31, 2007. This is the same as the balance sheet filed by the HMO.

Assets	Examination	HMO
Bonds	$148,051,193	$148,051,193
Common stocks	38,206,142	38,206,142
Cash , cash equivalents and short-term investments	41,476,846	41,476,846
Receivables for securities	37,402	37,402
Investment income due and accrued	1,617,490	1,617,490
Uncollected premiums	19,758,667	19,758,667
Accrued retrospective premiums	2,380,726	2,380,726
Amounts recoverable from reinsurers	1,129,130	1,129,130
Federal and foreign income tax recoverable and interest thereon	332,150	332,150
Electronic data processing equipment and software	326,690	326,690
Furniture and equipment	0	0
Receivables from parent, subsidiaries and affiliates	1,029,166	1,029,166
Healthcare and other amounts receivable	5,276,612	5,276,612
Other receivables	8,277,327	8,277,327
Total assets	$267,899,541	$267,899,541

Liabilities	**Examination**	**HMO**
Claims unpaid	$ 41,656,031	$ 41,656,031
Unpaid claim adjustment expenses	1,372,000	1,372,000
Premiums received in advance	9,387,828	9,387,828
General expenses due and accrued	5,294,446	5,294,446
Federal and foreign income taxes payable and interest thereon	5,805	5,805
Amounts due parent, subsidiaries and affiliates	26,823,204	26,823,204
Payable for securities	25,683	25,683
Total liabilities	$84,564,997	$84,564,997
Surplus		
Contingency reserve	$75,514,690	$75,514,690
Unassigned funds	107,819,852	107,819,852
Total surplus	$183,334,542	$183,334,542
Total liabilities and surplus	$267,899,539	$267,899,539

Note: The Internal Revenue Service has not conducted any audits of the income tax returns filed by the HMO during the period under examination. The examiner is unaware of any potential exposure of the HMO to any tax assessments and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus increased $60,429,564 during the three-year period under examination, January 1, 2005 through December 31, 2007, detailed as follows:

Revenue		
Net premium earned	$ 2,693,248,089	
Net investment income	30,842,203	
Net realized capital gain	1,174,707	
Other income	18,127	
Total revenue		$ 2,725,283,126
Expenses		
Hospital/medical benefits	$ 1,526,719,881	
Emergency room and out-of-area	110,316,375	
Prescription drugs	193,367,330	
Other hospital and medical benefits	474,479,217	
Claim adjustment expenses	22,864,535	
General administrative expenses	176,043,983	
Total expenses		2,503,791,321
Net income before federal and foreign income taxes incurred		$ 221,491,805
Federal and foreign income taxes incurred		(63,885)
Net income		$ 221,427,920

Surplus

Surplus per report on examination as of December 31, 2004			$ 122,904,978
	Gains in Surplus	Losses in Surplus	
Net income from operations	$221,427,920	$	
Change in net unrealized capital gains	3,528,759		
Change in non admitted assets		1,175,347	
Contribution to parent		163,351,768	
	$224,956,679	$164,527,115	
Net gain in surplus			60,429,564
Surplus per report on examination as of December 31, 2007			$ 183,334,542

4. RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES

The examination asset of $1,029,166 is the same as the amount reported by the HMO in its December 31, 2007 annual statement.

However, a review of RAHMO's inter-company transactions revealed that there was a balance of approximately $22,000,000 as of September 30, 2008 due to it from its affiliate, Preferred Administrative Services Inc. (PAS), a for-profit New York Corporation which provides administrative service only (ASO) business to customers in the Rochester area. This balance represented approximately six years of unpaid allocated expenses of PAS' portion of shared expenses with RAHMO. In this regard, RAHMO established a reserve for the approximately $22,000,000 due from PAS in its filed annual statement to the Superintendent of Insurance as of December 31, 2007 and its quarterly statement as of September 30, 2009.

In accordance with the cost allocation methodology within the MVP Health Care, Inc. holding company system, PAS is allocated its share of expenses by three of its affiliates (MVPSC, MVPHP and RAHMO). MVPSC allocates personnel charged expense costs (salaries and benefits) to PAS and all other companies within the holding company. MVPHP and RAHMO allocate non-personnel charged expense costs to PAS and all other companies within the holding company system. Management has determined that if PAS has funds available to satisfy inter-company transactions, the transactions between all other MVP Health Care, Inc. holding company entities, other than RAHMO should be satisfied first. PAS, during the examination period, paid the expense charges in full that were due to MVPHP and MVPSC, but it frequently did not pay the full amount of charged expenses due to RAHMO, thus resulting in the approximately $22,000,000 receivable due from PAS to RAHMO as of September 30, 2009. RAHMO maintained a reserve for the full amount of $22,000,000 due from PAS within its filed September 30, 2009 quarterly statement to the Superintendent of Insurance.

The HMO has indicated that in addition to the ASO only business, some of the ASO clients offer RAHMO’s Medicare products to its employees/retirees. RAHMO has reported significant surplus gains during the examination period and prior periods with regard to its Medicare product. In order to maintain its Medicare membership, ASO fees were discounted by RAHMO according to RAHMO management. HMO management has indicated to the examiners that it is reviewing ways to make PAS more profitable so it may be able to repay such inter-company payable balances to RAHMO; however, no time table for making such payment has been established by MVP Health Care, Inc. and PAS management.

It is recommended that the HMO take the necessary steps to collect all inter-company balances that are due from PAS.

5. CLAIMS UNPAID

The examination liability of $41,656,031 is the same as the liability reported by the HMO in its 2007 filed annual statement.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the HMO's internal records and its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the HMO's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2007.

6. AGGREGATE HEALTH CLAIM RESERVES

The HMO reported an amount of $ 0 for this liability in its December 31, 2007 annual statement, the HMO failed to include a provision for the extension of benefits reserve to take into consideration policies which lapsed at December 31, 2007 but are entitled to benefits subsequent to such date.

It is recommended that the HMO include a reserve under this caption to take into consideration claims on policies which lapsed at December 31, 2007 which are submitted subsequent to such lapse date.

7. SUBSEQUENT EVENTS

In its June 30, 2008 filed quarterly statement to the Superintendent of Insurance, PAC reported that it was insolvent in the amount of $3,241,215. PAC's losses in 2008 were due to erroneous pricing assumptions for its EPO and PPO products. The low premium rates caused a growth in membership from approximately 1,000 members reported at December 31, 2007 to approximately 25,000 members reported at September 30, 2008. The rates were later determined by PAC to be inadequate.

In order to remedy PAC's reported insolvency of $17,967,951 as of September 30, 2008, and to provide sufficient funds so that PAC's statutory net worth requirements were met, RAHMO proposed to transfer $30 million to its Parent, MVPHP Holding Company, Inc. The $30 million would then be transferred to MVP Health Care, Inc., the

Ultimate Parent of both PAC and RAHMO. The $30 million would then be transferred from the Ultimate Parent through two intermediate holding companies and then to PAC.

On November 7, 2008, the Insurance Department, based on a review of RAHMO's financial condition approved RAHMO's request to transfer $30,000,000 to MVPHP Holding Company, Inc., under the condition that the additional proposed transfers within the holding company system occur immediately, resulting in PAC's receipt of a $30,000,000 infusion of funds. Also, on November 14, 2008, RAHMO received approval from the Health Department for such $30,000,000 transfer. The $30,000,000 transfer from RAHMO to PAC via MVPHP Holding Company, Inc. was completed on November 19, 2008 which allowed PAC to maintain a solvent and un-impaired surplus position.

Merger With MVP Health Plan, Inc.

On May 1, 2009, subsequent to receiving approval from the New York Insurance Department and the New York Health Department, Rochester Area HMO, Inc. merged with its affiliate, MVP Health Plan, Inc., an HMO MVP Health Plan, Inc., a not-for-profit health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the New York Public Health Law, was the surviving entity.

<u>MVP Health Insurance Company</u>

MVP Health Insurance Company (Company) an affiliate of the HMO, reported a $25,816,713 insolvency in its filed September 30, 2009 quarterly statement. In December, 2009, MVP Health Plan, Inc. and MVP Health Insurance Company received approval from this Department and the New York Health Department relative to a series of transactions designed to restore MVP Health Insurance Company's surplus to a positive position. Such transactions, which took place on December 22, 2009, primarily involved a $52M surplus contribution and a $47M Section 1307 loan from MVP Health Plan, Inc. to MVP Health Insurance Company.

As a result of the above and other related transactions, MVP Health Insurance Company's surplus, on an unaudited basis, was restored to a positive position as of December 31, 2009.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2004, contained three recommendations. The recommendations are detailed as follows (page numbers refer to the prior reports):

ITEM NO.		PAGE NO.
1.	Management It is recommended that the HMO exclude from its bonus and employment agreement with its officers any reference to bonuses predicated on the profit of not-for-profit corporations in compliance with Section 508 of the New York Not-For-Profit Corporation Law. It is also recommended that the HMO put governance procedures in place for adequate board oversight of its officer compensation program. The employment agreement that prompted this recommendation no longer is in effect. The HMO has complied by creating a compensation committee.	13
2.	Reinsurance It is recommended that RAHMO amend its reinsurance contract with Zurich American Insurance Company to include the wording prescribed by Section 1308(a)(2)(A)(i) of the New York Insurance Law. The HMO has complied with this recommendation.	17
3.	Administrative Services Agreement It is recommended that RAHMO comply with the requirements of Part 98-1.11(b) of the Administrative Rules and Regulations of the New York Health Department (10 NYCRR 98-1) and obtain approval for its Administrative Services Agreement with PAC. The HMO has complied with this recommendation.	21

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM NO.		PAGE NO.
A.	Allocation of Expenses	
i.	It is recommended that the HMO comply with the requirements of SSAP No. 70 and Part 106.6 of New York Insurance Department Regulation No. 30 (11 NYCRR 106.6) by detailing the factors used and maintaining proper records to support such factors and the allocation percentages used.	24
ii.	It is recommended that RAHMO apply the guidelines of NAIC SSAP No. 70 and Part 105.25(b) of Department Regulation No. 30 (11 NYCRR 105.25(b)) by reporting in its annual statement exhibits only the expenses applicable to it.	24
iii.	It is recommended that the HMO apply the guidelines included in NAIC SSAP No. 70 and Department Regulation No. 30 by revising and updating its expense allocation methodology to reflect an appropriate allocation among the proper annual statement expense groupings within the Underwriting & Investment Exhibit of the HMO's annual statement.	25
B.	Abandoned Property	
	It is recommended that the HMO comply with the (publishing) notice requirements of Section 1316(3) of the New York Abandoned Property Law.	26
C.	Premium Revenue	
	It is recommended that the HMO comply with the annual statement instructions with regard to the proper segregation of small and large group premiums.	26
D.	Receivables From Parent, Subsidiaries and Affiliates	
	It is recommended that the HMO take the necessary steps to collect all inter-company balances that are due from PAS.	32

ITEM NO.		PAGE NO.
E.	Aggregate Health Claim Reserves	
	It is recommended that the HMO include a reserve under the caption, "Aggregate Health Claim Reserves" to take into consideration claims on policies which lapsed at December 31, 2007 which are submitted subsequent to such lapse date.	33

Appointment No. 22769

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **ERIC R. DINALLO**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Jeffrey Usher

as a proper person to examine into the affairs of the

Rochester Area Health Maintenance Organization

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

HMO

with such other information as he shall deem requisite.

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

this 1st day of June, 2009

Eric R. Dinallo
Superintendent of Insurance