REPORT ON EXAMINATION

OF

CDPHP UNIVERSAL BENEFITS, INC.

AS OF

DECEMBER 31, 2009

DATE OF REPORT	**DECEMBER 12, 2011**
EXAMINERS	**DOUGLAS BARTLETT, CFE**
	KENNETH MERRITT

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December 12, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Letter 30581, dated August 20, 2010, attached hereto, we have made an examination into the condition and affairs of CDPHP Universal Benefits, Inc., a non-profit medical and hospital indemnity corporation licensed pursuant to the provisions of Article 43 of the New York Insurance Law, as of December 31, 2009, and submit the following report thereon.

The examination was conducted at the home office of CDPHP Universal Benefits, Inc. located at 500 Patroon Creek Boulevard, Albany, New York.

Wherever the designations "UBI" or the "Plan" appear herein, without qualification, they should be understood to indicate CDPHP Universal Benefits, Inc.

Wherever the designations "CDPHP" or the "Parent" appear herein, without qualification, they should be understood to refer to Capital District Physicians' Health Plan, Inc.

Whenever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services. On October 3, 2011, the New York State Insurance Department merged with the New York State Banking Department to become the New York State Department of Financial Services.

A concurrent examination was made of UBI's Parent, CDPHP, a health maintenance organization, licensed pursuant to the provisions of Article 44 of the New York Public Health Law. A separate report thereon has been submitted. In addition, separate examinations into the manner in which UBI and CDPHP conduct their business practices and fulfill their contractual obligations to policyholders and claimants were conducted as of December 31, 2009. Separate reports will be submitted thereon.

1. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2004. This examination of the Plan is a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2009 Edition* (the "Handbook") and it covers the five-year period from January 1, 2005 through December 31, 2009. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2009 were also reviewed.

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 examiners' assessment of risk in the Plan's operations and utilizes that evaluation in formulating the nature and extent of the examination. The risk-focused examination approach was included in the Handbook for the first time in 2007; thus, this was the first such type of examination for the Plan. The examiners 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 UBI.

The examiners 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 NAIC 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
- Reputational

The Plan was audited annually, for the years 2005 through 2009, by the accounting firm of PricewaterhouseCoopers LLP ("PwC"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of PwC were reviewed and relied upon in conjunction with this examination. A review was also made of the Parent's corporate governance structure, which included the Internal Audit function and Enterprise Risk Management program, as they relate to UBI.

The examiners reviewed the corrective actions taken by the Plan with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiners' review are contained in Item 7 of this report.

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

2. DESCRIPTION OF THE PLAN

The Plan was formed on January 2, 1997 and incorporated on February 28, 1997, pursuant to Section 402 of the New York State Not-for-Profit Corporation Law. It was then licensed on August 14, 1997, pursuant to Article 43 of the New York Insurance Law for the purpose of providing indemnity based, prepaid comprehensive health care service through arrangements with physicians, hospitals, and other providers.

The Plan is a type D Corporation, as defined in Section 201 of the Not-for-Profit Corporation Law. The sole member of the Plan is CDPHP, a Not-for-Profit Corporation operating as a health maintenance organization ("HMO"), pursuant to Article 44 of the

New York Public Health Law. UBI was capitalized by means of a $1,250,000 loan from its Parent and sole member, CDPHP. Further details regarding the financing of UBI are contained within the Holding Company System section of this report.

A. Management and Controls

Pursuant to the Plan's by-laws, management of UBI is to be vested in a board of directors ("BOD") consisting of not less than thirteen and not more than nineteen members, with the exact number to be determined by the sole member of the Plan. As of the December 31, 2009 examination date, the board of directors was comprised of the following ten (10) members:

Name and Residence	Principal Business Affiliation
Officer-Employee Representatives	
John D. Bennett, MD Menands, New York	President and Chief Executive Officer, CDPHP
Frederick B. Galt Albany, New York	Senior Vice President and General Counsel, CDPHP
Provider Representatives	
Peter T. Burkart, MD Averill Park, New York	Hematologist, Capital District Hematology/Oncology
Gennaro A. Daniels, MD Troy, New York	Surgeon, Capital District Colon & Rectal Surgery Associates, PC
James C. Leyhane, MD East Greenbush, New York	Internist, Community Care Physicians, PC
General Public Representatives	
James M. Brennan Slingerlands, New York	Owner and President, Albany Truck Sales

Name and Residence	Principal Business Affiliation
M. Bruce Cohen Albany, New York	Retired, Former PwC Partner
Daniel Frasca Valatie, New York	Retired, Executive Director, Finance and Administration - New York State United Teachers
Thomas J. Kane Glenmont, New York	Principal, St. Thomas School
Subscriber Representatives	
Sheree Hipwell Rensselaer, New York	Director, Compensation Benefits, State Employees Federal Credit Union

The total of ten board members as noted above does not comply with the minimum number of thirteen board members as called for in the Plan's by-laws, which states in part the following requirement:

> *"...the Corporation shall have not less than thirteen nor more than nineteen members of the Board of Directors..."*

Following the December 31, 2005, annual statement filing date and throughout the period of January 2006 to December 2009, the total number of board members serving on the Plan's board of directors was between ten and twelve directors.

It is recommended that the Plan comply with its by-laws by maintaining the minimum number of board of directors.

During 2010, the Plan amended its by-laws to reduce the minimum number of board members to eight directors.

A review of the composition of the Plan's BOD in accordance with Section 4301(k)(1) of the New York Insurance Law revealed that UBI did not comply with the statutory requirements for maintaining the requisite number of directors in the employee-officer, provider and subscriber categories.

For the period 2007 - 2009, the following observations were noted in regard to the composition of the Plan's BOD in relationship to the total number of directors as of the aforementioned years.

(i) The Plan had more than the required number of directors in the Officer-Employee and Provider categories.

Section 4301(k)(1) of the New York Insurance Law states in part:

> *"Not more than one-eighth of the directors of any such corporation shall be persons who are employees of such corporation and who also serve as officers of such corporation…"*
>
> *"...Not more than one-fifth of the directors of any such corporation shall be persons who are licensed to practice medicine in this state (other than physicians employed on a full-time basis in the fields of public health, public welfare, medical research or medical education) or who are trustees, directors or employees of a corporation organized for hospital purposes, or any combination thereof."*

(ii) The Plan had less than the required number of directors for the subscriber category.

Section 4301(k)(1) of the New York Insurance Law states in part:

> *"…one-half in number, as nearly as possible, shall be persons covered under a contract or contracts issued by such health service, hospital service or medical indemnity corporation, and who are generally representative of broad segments of such covered persons…"*

It is recommended that the Plan comply with Section 4301(k)(1) of the New York Insurance Law by maintaining a BOD which is comprised of the requisite number of directors within each of the categories stipulated in the statute.

A review of the minutes of the Plan's BOD meetings held during the period under examination evidenced that the meetings were generally well attended, with all board members attending at least one-half of the meetings they were eligible to attend.

The principal officers of the Plan as of December 31, 2009 were as follows:

Name	**Title**
Peter T. Burkart, MD	Chairman of the Board of Directors
John D. Bennett, MD	President and Chief Executive Officer
James M. Brennan	Secretary
Bruce Nash, MD	Senior Vice President, Chief Medical Officer
Linda Navarra	Senior Vice President, Chief Information Officer
Rolando Portocarrero	Senior Vice President, Chief Financial Officer
Frederick B. Galt	Senior Vice President, General Counsel

B. Corporate Governance

UBI has adopted some elements of an Enterprise Risk Management ("ERM") framework for proactively addressing and mitigating risks, including prospective business risks. Exhibit M of the Handbook (*Understanding the Corporate Governance Structure*) was utilized by the examiners as guidance for assessing corporate governance. Overall, it was determined that the Plan's corporate governance structure is adequate, sets an appropriate "tone at the top", and supports a proactive approach to operational risk management, including prospective business risks. Additionally, it was noted that UBI's BOD and key executives encourage integrity and ethical behavior throughout the organization.

UBI is subject to CDPHP's Internal Audit Department ("IAD"). CDPHP has an established IAD function, which is independent of management, to serve the CDPHP Audit Committee of the BOD (the "Audit Committee" or "AC"). The AC is comprised entirely of independent directors. Additionally, the IAD assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations and CDPHP's policies.

During the course of this examination, consideration was given to the significance and potential impact of certain IAD findings. To the extent possible, the examiners relied upon the work performed by the IAD, as prescribed by the Handbook.

The examination noted the following reportable items related to Corporate Governance, IAD and ERM:

1. Internal Audit Manager – Compensation Approval

During the examination period and into calendar year 2010, the Audit Committee reviewed and approved the performance evaluation of the Director of Risk Management, but had no direct role in reviewing and approving the compensation of the Internal Audit Manager. Based upon the Institute of Internal Auditors ("IIA") Standard 1110, at least once a year, the AC should review the performance of the Chief Audit Executive ("CAE") and approve this individual's annual compensation and salary adjustment. As CDPHP presently does not have a designated CAE, the examiners looked to apply this standard to the highest level IAD supervisor, noting the Internal Audit Manager's position constituted the most senior level IAD resource. It was noted that the responsibilities over the Plan's IT related audits did not lie with the Internal Audit

Manager, but are duties that are delegated to CDPHP's Information Security Officer. CDPHP could not provide evidence documenting the approval of the Internal Audit Manager's compensation in the 2009 CDPHP AC minutes.

It is recommended that the Audit Committee be responsible for reviewing and approving the performance evaluation and the salary and variable compensation of the Internal Audit Manager. The AC should also consider reviewing and approving the salary and variable compensation of the Information Security Officer, since this role is responsible for performing Information Technology ("IT") internal audits.

2. Internal Audit Department – Risk Assessment

Historically, the IAD conducted an annual overall risk assessment based on nine (9) factors, as detailed in the Plan's parent, CDPHP, IAD's Manual, however, the risk assessment process was not conducted for 2009, which conflicts with CDPHP's existing IAD standards.

The annual risk assessment is a requirement of one of the IIA's Performance Standards, which states the following:

> *"PS 2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process."*

In addition, areas that are rated by the IAD as "high" risk are not audited on an annual basis. The guidelines documented by CDPHP's IAD require "high" risk areas to be audited every two years; however, this condition has not been met.

In line with industry best practices, it is recommended that the IAD change its guidelines to require high risk areas to be audited annually, instead of every two years. Concurrent with this change, it is recommended that the Plan's parent, CDPHP, begin conducting a corporate-wide risk assessment on an annual basis and ensure that "high" risk areas are audited annually.

3. Integrated Audits with IT

There is no coordination and/or integration of internal audits between the financial and operational internal auditors and the IT internal auditors. Integrated audits are considered a best practice because they not only generally save time and money, but they also address business risk in terms of more integrated findings.

It is recommended that the IAD plan its audits to involve both financial and operational internal auditors along with IT internal auditors, so that the entire process has clearly defined common goals. This method of integrated planning will help ensure that the efforts of the operational and IT internal auditors support each other from the inception of the internal audit.

4. Segregation of Duties Within IT Security, IT Internal Audit and Internal Model Audit Rule (MAR) Testing

The Plan's parent, CDPHP's organizational structure places responsibility for information security governance and IT internal audit with a single individual responsible for managing both functions. In addition, this individual has considerable responsibility for managing CDPHP's internal readiness efforts for compliance with Department

Regulation No. 118 (11 NYCRR 89) ("Regulation 118"), which serves as the Department's implementation of the NAIC's Annual Financial Reporting Model Regulation ("Model Audit Rule" or "MAR" for purposes of this report). This structure creates the potential for a conflict of interest across responsibilities. It was noted that operational aspects of information security lie outside of this organizational structure.

Per guidance from the Information Systems Audit and Control Association ("ISACA"),

> *"Audit independence is a critical component if a business wishes to have an audit function that can add value to the organization. The [internal] audit report and opinion must be free of any bias or influence if the integrity of the audit process is to be valued and recognized for its contribution to the organization's goals and objectives."*

This position is supported throughout the audit industry, including specific guidance from organizations such as the American Institute of Certified Public Accountants ("AICPA") and the IIA.

> Per the IIA website, it states the following:
>
> "*the internal auditor occupies a unique position, he or she is employed by management but is also expected to review the conduct of management which can create significant tension since the internal auditor's independence from management is necessary for the auditor to objectively assess the management's action, but the internal auditor's dependence on management for employment is very clear;*" and, "t*o maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an un-biased and impartial mindset in regard to all engagements*."

It is recommended that the Plan's parent, CDPHP, assess its current organizational and staffing structure with consideration given to segregating responsibilities for information security governance, IT internal audit, and management of internal testing. This assessment should consider all aspects of information security governance and operations, IT internal audit and administrative responsibilities related to management's testing of controls.

C. Reinsurance

The Plan was a party to two excess-of-loss reinsurance agreements used to limit its exposure to losses from catastrophic inpatient claims. At December 31, 2009, these reinsurance agreements were as follows:

(i) Excess of loss reinsurance agreement with Carter Insurance Company, Ltd (Carter) of Hamilton, Bermuda, a 100% wholly-owned subsidiary of CDPHP

Carter, which is not licensed or accredited as an authorized reinsurer in the State of New York, was organized and began operations in January 1, 2004, for the purpose of providing reinsurance services for CDPHP and UBI. Carter assumes 85% of the inpatient hospital services up to $725,000, in excess of $400,000, for claims paid under CDPHP and UBI contracts.

(ii) Second layer excess-of-loss reinsurance agreement with HCC Life Insurance Company ("HCC"), an unrelated accredited reinsurance carrier

This agreement covers the Plan's commercial lines, which include its Point-of-Service, Exclusive Provider Option and Preferred Provider Option/High Deductible Preferred Provider Option health coverages. With certain exclusions and limitations, HCC assumes 90% of the inpatient hospital services after a $725,000 deductible, subject to a maximum of $2,000,000 of covered expenses per member, per contract period.

Both reinsurance agreements contained the insolvency wording required by Section 1308(a)(2)(A)(i) of the New York Insurance Law.

D. Territory and Plan of Operation

The Plan is licensed to do business as a not-for-profit medical and hospital indemnity corporation within the State of New York pursuant to Article 43 of the New York Insurance Law. The Plan started operations on January 1, 1998.

Members are able to select from various lines of business, including a Preferred Provider Organization ("PPO"), an Exclusive Provider Organization ("EPO") and a Point-of-Service Plan ("POS"). The Plan also offers a high deductible PPO. Dependent upon the limitations within each contract, members are permitted to select either providers participating within the Plan's network, or providers outside of the network. In some cases, a co-payment, co-insurance or deductible may apply.

The Plan pays hospital charges through direct hospital billing. Out-of-area emergency care benefits are also provided within the subscriber contracts.

The Plan's total annual member enrollments were as follows for each of the five year period under examination (UBI had 3,846 members in 2004):

	2005	2006	2007	2008	2009
Members	27,516	44,046	51,409	61,840	64,339
% change	615.50%	60.07%	16.72%	20.29%	4.04%

At the end of calendar year 2005, the membership of UBI increased to 27,516, a 615.5% increase over calendar year 2004. A reason for this significant increase, and that of the subsequent years, is member migration from the Parent's HMO line of business coverages to UBI's various indemnity plans and the addition of the Federal Employees Health Benefit Plan. The enrollment that corresponds to these various lines of business during the examination period was as follows:

	2005	2006	2007	2008	2009
Federal Employees Health Benefits Plan	17,720	12,198	10,285	9,733	9,848
Medicare	0	0	0	865	2,742
Other	0	921	107	0	0
Commercial Group	9,796	30,927	41,017	51,242	51,749
Totals	27,516	44,046	51,409	61,840	64,339

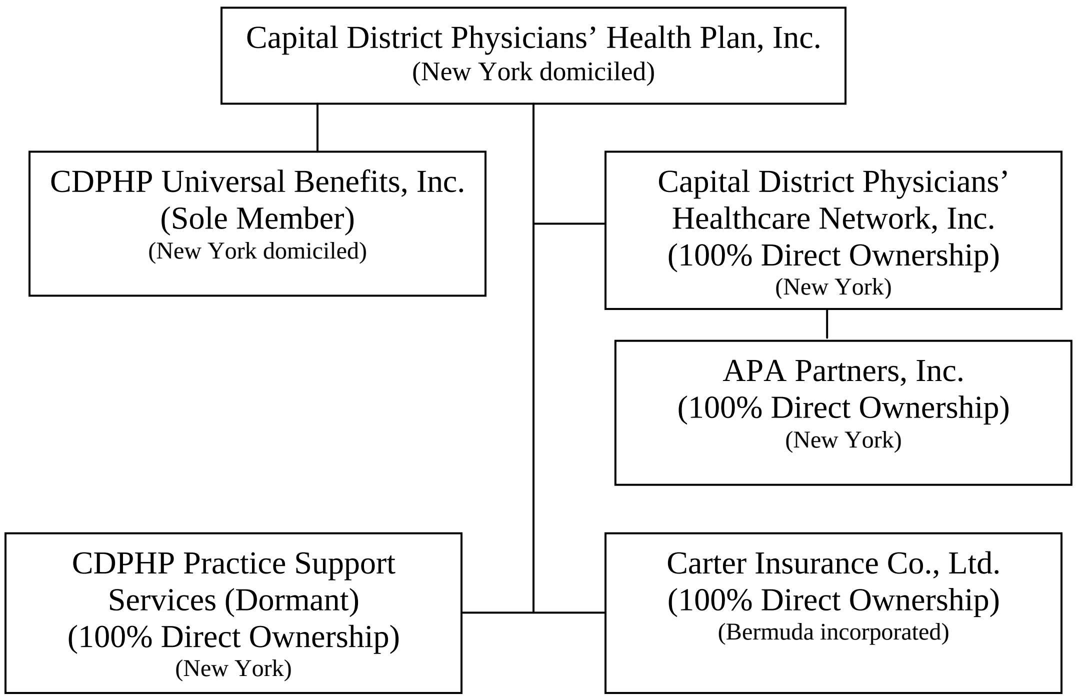
The Plan does business through the use of an internal sales force, as well as through the utilization of independent agents and brokers.

The following table displays UBI's net admitted assets, surplus, net premium income and net income during the period under examination:

Year	Net Admitted Assets	Surplus	Net Premium Income	Net Income
2009	$56,507,834	$28,330,910	$245,202,139	$(7,931,242)
2008	60,433,688	36,591,846	207,325,266	(9,666,667)
2007	41,678,353	20,992,981	159,209,271	1,708,579
2006	15,973,841	2,725,558	129,833,759	(964,000)
2005	17,665,527	6,249,465	74,052,398	(287,152)

E. Holding Company System

The following chart depicts the Plan's holding company system as of December 31, 2009:



Below is a description of each entity's organizational structure and operating activities:

(i) Capital District Physicians' Health Plan, Inc.

The Parent was formed on February 27, 1984, under Section 402 of the Not–for-Profit Corporation Law and was licensed as an HMO pursuant to Article 44 of the Public Health Law of the State of New York. CDPHP obtained its certificate of authority to operate as an independent practice association ("IPA") model HMO, effective April 30, 1984. UBI does not have any employees or business facilities. Instead, the Plan entered into an administrative service agreement with the Parent, wherein various services are provided to UBI by CDPHP, including, but not limited to the following functions: (i) overall administration, (ii) financial, (iii) legal, (iv) internal operations, (v) management information systems, (vi) marketing, (vii) consultation, (viii) utilization review services, (ix) claims administration; and (x) developing, revising, and refining new health care services products, systems, and policies. The agreement was approved by the Department on February 2, 2006.

The Plan reimburses its Parent for the services rendered on a monthly basis based on actual costs incurred. The Plan's premiums are collected by CDPHP and subsequently disbursed to UBI on a monthly basis.

Due largely to the migration of CDPHP's HMO subscribers to UBI, the Plan's premium writings have increased markedly from 2005 to 2009. UBI wrote $74 million in premiums in 2005, and it wrote $245.2 million in premiums in 2009, which more than tripled the 2005 amount. The increased premium volume, combined with UBI's substantial net losses sustained in 2008 and 2009, resulted in UBI having a net worth, at several points in time that was below the minimum statutory reserve fund requirement as set forth in Section 4308 of the New York Insurance Law. In order for UBI to meet its statutory reserve fund requirement, it received surplus notes from CDPHP in the amount of $15 million in 2007 and $25 million in 2008, bringing the total of surplus notes UBI received since inception in 1997 through December 31, 2009 to $48.5 million.

The notes and interest payable on the loans shall only be paid out of future free and divisible surplus of the Plan. All such payments are subject to the prior approval of the Superintendent. Repayment of the notes and interest shall be subordinate to all other liabilities of the Plan.

(ii) Capital District Physicians' Healthcare Network, Inc. ("CDPHN")

CDPHN, a wholly-owned subsidiary of CDPHP, was incorporated on June 14, 1991. CDPHN was organized for the purpose of providing managed care and administrative support services to self-insured employers. The reported net equity for CDPHP in its CDPHN subsidiary, as of December 31, 2009, was $806,877.

(iii) APA Partners, Inc. ("APA")

During 2004, CDPHN acquired APA Partners, Inc., which provides third party administration services. During 2008, CDPHP's board of directors approved management's plan that, beginning in 2010, APA would no longer accept new contracts for dental or vision insurance benefits or third-party administrator services under the APA Brand. During the transition and thereafter, the operations and future offerings of dental and vision benefits will be transferred to CDPHN, parent of APA. Third Party Administrator benefits will no longer be offered beginning in 2010, with the potential of some benefits terminating during 2011.

(iv) CDPHP Practice Support Services ("PSS")

PSS is a wholly-owned subsidiary of CDPHP, which was incorporated on May 9, 1994. PSS was organized for the purpose of providing management support services to participating providers. PSS became dormant during 1997; therefore, it did not conduct business during the examination period.

(v) Carter Insurance Company, Ltd.

Carter, an unauthorized reinsurer, was incorporated in November 2003 in Bermuda as a for-profit corporation and began operations on January 1, 2004. CDPHP made a capital contribution of $1,000,000 in this subsidiary during November 2003 and received in return 120,000 shares of stock, which represents 100% of common stock issued. At the examination date, Carter was valued at $1,903,474 by CDPHP, which represented the net equity of Carter at such date.

F. Accounts and Records

Per the 2009 NAIC Handbook, in order to complete an examination under the risk-focused examination ("RFE") approach, examiners must consider and evaluate the Plan's established risk management processes. Understanding how the Plan identifies, controls, monitors, evaluates and responds to risks enhances the examiners' consideration of current and prospective risk areas and assists with the appropriate determination of detail examination procedures that should be performed in Phase 5 (Substantive Examination Procedures) of the RFE approach.

Under the RFE approach, and in compliance with the Sarbanes-Oxley Act of 2002 for public companies and in accordance with the new American Institute of Certified Public Accountants' risk assessment standards (in particular SASs 109 and 110) and Department Regulation No. 118, required for private companies, documentation of the internal controls must be available for review. The extent of documentation pertaining to a company's risk mitigation strategies varies based on the size and structure of the company and of its holding company group.

Further under the RFE approach, although all available information should be considered and evaluated for each examination, examiners are not expected to create internal control documentation if it is not present at the company at the onset of the examination.

Regardless of the documentation available, the examiners should determine whether effective controls are in place and adequately mitigate the identified risks. In instances where the examiners can preliminarily determine and document that effective controls do not exist, or would be inefficient to test, no control testing would be required.

The examiners considered the Plan's internal control environment, including the Information Technology General Controls ("ITGC"). In particular, the examiners considered certain ITGC weaknesses and gaps, identified by CDPHP during calendar year 2010, as part of its Department Regulation No. 118 compliance efforts, which were determined to likely have existed as of December 31, 2009 and prior. As a result, the examiners used professional judgment and determined that there was a high likelihood it would be inefficient to test the operating effectiveness of the internal controls relating to the Plan's key functional areas for the examination period. Accordingly, the examination team took a non-controls reliance strategy for the current financial examination period that covers January 1, 2005 through December 31, 2009.

Therefore, the examiners did not test controls in Phase 3 (Risk Mitigation Strategy/Control Assessment) of the RFE and, for the purposes of determining residual risk, concluded that the internal control environment for the key functional activities (e.g., significant processes) could not be relied upon.

During 2010, as part of its compliance initiatives for Department Regulation No. 118, CDPHP began implementing changes to strengthen its internal control environment in order to mitigate the risks in the key functional activities.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following compares the assets, liabilities and surplus as determined by this examination with those reported by UBI in its filed annual statement as of December 31, 2009:

	Examination	Plan	Surplus Increase/ (Decrease)
Assets			
Bonds	$ 23,210,155	$ 23,210,155	
Cash and cash equivalents	1,612,743	1,612,743	
Short-term investments	3,227,880	3,227,880	
Interest income due and accrued	178,817	178,817	
Uncollected premiums and agents' balances in the course of collection	7,831,822	11,831,822	$ (4,000,000)
Accrued retrospective premiums	(9,590,965)	(9,590,965)	
Amounts recoverable from reinsurers	201,222	201,222	
Amounts due from parent, subsidiaries and affiliates	17,314,702	13,314,702	4,000,000
Healthcare and other amounts receivables	12,521,458	12,521,458	0
Total assets	$ 56,507,834	$ 56,507,834	$ 0

	Examination	Plan	Surplus Increase/ (Decrease)
Liabilities			
Claims unpaid	$ 24,812,015	$ 24,812,015	
Accrued medical incentive pool and bonus amounts	921,585	921,585	
Unpaid claims adjustment expenses	461,428	461,428	
General expenses due and accrued	1,981,896	1,981,896	
Total liabilities	$ 28,176,924	$ 28,176,924	
Surplus			
Surplus notes	$ 48,500,000	$ 48,500,000	
New York State contingency reserve	8,312,964	8,312,964	
Unassigned funds	(28,482,054)	(28,482,054)	
Total surplus	$ 28,330,910	$ 28,330,910	
Total liabilities and surplus	$ 56,507,834	$ 56,507,834	

Note 1: Although the Plan is subject to audits by the Internal Revenue Service, it has never undergone an IRS audits since its inception. The Plan is however exempt from New York State corporate income taxes. The examiners are unaware of any potential exposure of the Plan to any tax assessment and no liability has been established herein relative to such contingency.

Note 2: No liability appears on the above statement for loans in the amount of $48,500,000 and no interest has been accrued. The loans were granted pursuant to the provisions of Section 1307 of the New York Insurance Law. As provided in Section 1307, repayment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent. See Section 5 for additional information regarding the Surplus Notes.

B. Statement of Revenue and Expenses and Capital and Surplus

Surplus increased $26,098,362 during the five-year examination period, January 1, 2005 through December 31, 2009, detailed as follows:

Revenue		
Premium income		$ 815,622,833
Changes in unearned premium income		(6,911,565)
Aggregate write-ins		(182)
Total revenue		$ 808,711,086
Hospital and medical expenses		
Hospital / medical benefits	$ 537,920,399	
Other professional services	22,870,134	
Emergency room and out of area	17,652,758	
Prescription drugs	128,192,327	
HCRA regulatory charges	22,269,690	
Aggregate write-ins for other hospital and medical	5,367,779	
Incentive pool, withheld adjustments and bonus amounts	2,256,514	
Net reinsurance recoveries	(2,793,619)	
Total hospital and medical benefits	$ 733,735,982	
Claims adjustment expenses	30,027,044	
General administrative expenses	65,572,576	
Total underwriting deductions		$ 829,335,602
Net underwriting loss		(20,624,516)
Net investment income earned		3,434,006
Net realized capital gains		50,028
Net income before federal and foreign income taxes		(17,140,482)
Federal and foreign income taxes incurred		0
Net income before federal and foreign income taxes		$ (17,140,482)

Changes in Capital and Surplus

Surplus, per report on examination, as of December 31, 2004			$ 2,232,548
	Gains in Surplus	Losses in Surplus	
Net loss		$ 17,140,482	
Change in nonadmitted assets		303,574	
Change in surplus notes	$ 44,500,000		
Aggregate write-ins for gains (or losses) to surplus	0	957,582	
Net change in surplus			$ 26,098,362
Surplus, per report on examination, as of December 31, 2009			$ 28,330,910

4. ACCOUNTS RECEIVABLE/INTER-COMPANY BALANCES

The examiners have reduced "Uncollected Premiums and Agents' Balances in the Course of Collection" by $4,000,000, and reclassified this amount to "Amounts Due from Parent, Subsidiaries and Affiliates". CDPHP implemented a new system in July 2009, which sends one invoice to groups which can cover CDPHP, UBI and Administrative Services Only business. The group premium is posted in full to CDPHP as it comes into the lock box. A separate report is run to calculate the cash receipts due to each subsidiary; however, this process was not working until early 2010. The reclassification represents premiums that had been collected by CDPHP prior to December 31, 2009, but not remitted to UBI. CDPHP is now running this report weekly and transferring the funds to the subsidiaries and affiliates more than once a month.

The reclassification of the above $4,000,000 inter-company receivable which occurred after the March 1, 2010, filing of UBI's 2009 annual statement, was subsequently paid in full by the Parent to the Plan at the end of April 2010.

It is recommended that the Plan adjusts its Uncollected Premiums and Agents' Balances in the Course of Collection account by the premiums collected by CDPHP but not remitted to the Plan.

5. SURPLUS NOTES

During the period under examination, UBI failed to adequately disclose the Surplus Notes in its annual financial statement in the manner prescribed by Statement of Statutory Accounting Principles (SSAP) No. 41, Paragraphs 12 and 13.

SSAP No. 41, Paragraphs 12 and 13, respectively require the following disclosures:

> *"12. The notes to the financial statements of a reporting entity that issues surplus notes shall disclose the following as long as the surplus notes are outstanding:*
>
> *a. Date issued;*
> *b. Description of the assets received;*
> *c. Holder of the note or if public the names of the underwriter and trustee;*
> *d. Amount of note;*
> *e. Carrying value of note…"*
>
> *"13. In addition to the above, a reporting entity shall identify all affiliates that hold any portion of a surplus debenture or similar obligation (including an offering registered under the Securities Act of 1933 or distributed pursuant to rule 144A under the Securities Act of 1933), and any holder of 10% or more of the outstanding amount of any surplus note registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933."*

It is recommended that the Plan adequately disclose the surplus notes in its financial statement filings going forward pursuant to SSAP No. 41, Paragraphs 12 and 13.

The Plan corrected the disclosure in its March 31, 2010 quarterly statement filing.

6. CLAIMS UNPAID

The examination liability for the above captioned account of $24,812,015 is the same amount as reported by the Plan in its filed annual statement as of December 31, 2009. 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 Plan's internal records and in its filed annual statements as verified by the examiners. 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 Plan's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2009.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2004, contained four (4) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
	Holding Company System	
1.	It is recommended that the Plan comply with New York State Insurance Law 1307(d) and obtain Superintendent approval for the two loans it received from its parent, CDPHP, during 2004. It is further recommended that the Plan desist from entering into further such loans until the Superintendent approval has been obtained.	10
	The Plan has complied with this recommendation.	
	Investments	
2.	It is recommended that Plan establish independent contractual arrangements with its investment managers and advisors.	12
	The Plan has complied with this recommendation.	
3.	It is recommended that Plan comply with New York Insurance Law 1409 (a) and not invest more than 10% of its admitted assets in the securities of any one institution.	17
	The Plan has complied with this recommendation.	
	Accounts and Records	
4.	It is recommended that the Plan comply with SSAP No. 70 and properly allocate investment expenses within its Annual Statement, Underwriting and Expense Exhibit, Part 3, Analysis of Expenses.	18
	The Plan has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	**Management and Controls**	
i.	It is recommended that the Plan comply with its by-laws by maintaining the minimum number of board of directors.	6
ii.	It is recommended that the Plan comply with Section 4301(k)(1) of the New York Insurance Law by maintaining a BOD which is comprised of the requisite number of directors within each of the categories stipulated in the statute.	8
B.	**Corporate Governance**	
i.	It is recommended that the Audit Committee be responsible for reviewing and approving the performance evaluation and the salary and variable compensation of the Internal Audit Manager. The AC should also consider reviewing and approving the salary and variable compensation of the Information Security Officer, since this role is responsible for performing Information Technology (“IT”) internal audits.	10
ii.	In line with industry best practices, it is recommended that the IAD change its guidelines to require high risk areas to be audited annually, instead of every two years. Concurrent with this change, it is recommended that the Plan’s parent, CDPHP, begin conducting a corporate-wide risk assessment on an annual basis and ensure that “high” risk areas are audited annually.	11
iii.	It is recommended that the IAD plan its audits to involve both financial and operational internal auditors along with IT internal auditors, so that the entire process has clearly defined common goals. This method of integrated planning will help ensure that the efforts of the operational and IT internal auditors support each other from the inception of the internal audit.	11
iv.	It is recommended that the Plan’s parent, CDPHP, assess its current organizational and staffing structure with consideration given to segregating responsibilities for information security governance, IT internal audit, and management of internal testing. This assessment should consider all aspects of information security governance and operations, IT internal audit and administrative responsibilities related to management’s testing of controls.	12

ITEM		PAGE NO.
C.	**Accounts Receivable/Inter-company Balances**	
	It is recommended that the Plan adjusts its Uncollected Premiums and Agents' Balances in the Course of Collection account by the premiums collected by CDPHP but not remitted to the Plan.	26
D.	**Surplus Notes**	
	It is recommended that the Plan adequately disclose the surplus notes in its financial statement filings going forward pursuant to SSAP No. 41, Paragraphs 12 and 13.	27

Appointment No. **30581**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

RSM McGladrey, Inc.

as a proper person to examine into the affairs of the

CDPHP-Universal Benefits, Inc.

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

Company

with such other information as it 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 20th day of August, 2010

James J. Wrynn
Superintendent of Insurance