REPORT ON EXAMINATION

OF

EXCELLUS HEALTH PLAN, INC.

AS OF

DECEMBER 31, 2008

DATE OF REPORT	**DECEMBER 4, 2012**
EXAMINERS	**SHAWN TOWCHIK, CFE**
	ROBERT W.MCLAUGHIN, CFE, CIE

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December 4, 2012

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 Number 30220, dated July 10, 2009 annexed hereto, we have made an examination into the condition and affairs of Excellus Health Plan, Inc., a health service corporation licensed pursuant to Article 43 of the New York Insurance Law, as of December 31, 2008, and submit the following report thereon.

The examination was conducted at the home office of Excellus Health Plan, Inc. located at 165 Court Street, Rochester, New York.

Wherever the designations the “Plan”, “EHP”, or “Excellus” appear herein, without qualification, they should be understood to indicate Excellus Health Plan, Inc., a wholly-owned subsidiary of Lifetime Healthcare, Inc.

Wherever the designation the "Parent" appears herein, without qualification, it should be understood to indicate Lifetime Healthcare, Inc., a not-for-profit holding company.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

A separate Market Conduct examination reviewing the manner in which the Plan conducted its business practices and fulfilled its contractual obligations to policyholders and claimants was conducted as of December 31, 2007. A separate report thereon has been filed by the Department.

1. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2003. This examination of the Plan was a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2008* Edition (the "Handbook") and it covers the five-year period from January 1, 2004 through December 31, 2008. The examination was conducted observing the guidelines and procedures in the Handbook, and where deemed appropriate, transactions occurring subsequent to December 31, 2008 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 examiners planned and performed the examination to evaluate the Plan's current financial condition, as well as to identify prospective risks that may threaten the future solvency of Excellus Health Plan, Inc.

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 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 2004 through 2008, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination. The Plan has an internal audit department which has been given the task of assessing the Plan's internal control structure. A review was also made of the Plan's Enterprise Risk Management program.

The examiner reviewed the corrective actions taken by the Plan with respect to the recommendations concerning issues contained in the prior financial report on examination. The results of the examiners' review are contained in Item 8 of this report.

During this examination, an information systems review was made of the Plan's computer systems and operations with the assistance of RSM McGladrey, Inc., 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 departure from laws, regulations or rules, or which require explanation or description.

A review was also made to ascertain what actions were taken by the Plan with regard to comments and recommendations made in the prior report on examination.

2. DESCRIPTION OF THE PLAN

Excellus Health Plan, Inc. is a domestic not-for-profit health service corporation organized and licensed pursuant to Article 43 of the New York Insurance Law. The Plan operates under two assumed (d/b/a) names for its Article 43 business, Excellus BlueCross BlueShield and Univera Healthcare. Excellus BlueCross BlueShield provides hospital, surgical-medical, major medical/comprehensive, dental and prescription drug coverages within the Rochester, New York and Central New York State regions. Univera Healthcare provides hospital, medical, dental and prescription drug coverages within an eight county area of western New York State.

The Plan also holds a Certificate of Authority under Article 44 of the New York Public Health Law to operate, as a line of business, a health maintenance organization, Excellus Health Plan, Inc. d/b/a Upstate HMO, Univera Healthcare HMO and Univera as a separate line of business. The latter two d/b/a names pertain to the Plan’s HMO operations within an eight county region of the western region of New York State.

At the examination date, Lifetime Healthcare, Inc. (formerly Excellus, Inc.) was the sole member of Excellus Health Plan, Inc. Excellus Inc. changed its name on January 23, 2004 to Lifetime Healthcare, Inc., d/b/a The Lifetime Healthcare Companies. Excellus Health Plan, Inc. is the surviving entity resulting from the mergers of the Blue Cross/Blue Shield Plans in the Rochester, Central New York, and Utica-Watertown regions and HMOs in Central and Western New York; including HMO-CNY and Univera Healthcare of Central and Western New York.

A. Corporate Governance

Pursuant to the Plan's charter and by-laws, prior to March 26, 2008, management of the Plan was to be vested in a board of directors consisting of twenty-three members. On March 26, 2008, the Plan's by-laws were amended to reduce the required number of members of the board of directors from twenty-three to twenty. As of the examination date, the board of directors was comprised of twenty members. The board met six times during each calendar year of the examination period.

The Plan's directors as of December 31, 2008 were as follows:

Name and Residence	Principal Business Affiliation
Hermes L. Ames III Menands, NY	Retired
Natalie L. Brown Barneveld, NY	Executive Director and CEO, Girls Scouts – Foothills Council, Inc.

Name and Residence	Principal Business Affiliation
Randall L. Clark East Amherst, NY	Chairman of the Board, Dunn Tire, LLC
Thomas S. Coughlin Breckney, PA	President and CEO, McFarland-Johnson, Inc.
Geoffrey H. Davis, PhD Little Falls, NY	Direct Superintendant and Chief Executive Officer, Hamilton-Fulton-Montgomery BOCES
John G. Doyle Jr. Rochester, NY	President and CEO, Doyle Security Systems, Inc.
Deborah A. Freund, PhD Jamesville, NY	Professor, Syracuse University
David T. Griffith New Hartford, NY	President, M. Griffith, Inc.
Thomas Y. Hobart Jr. Amherst, NY	President Emeritus, New York State United Teachers
David H. Klein Rochester, NY	President and CEO, Lifetime Healthcare, Inc.
Joseph F. Kurnath, M.D. Pittsford, NY	Physician
David R. Mackenzie, M.D. Trumansburg, NY	President and CEO, Cayuga Medical Center of Ithaca
Thomas L. Mahoney, M.D. Pittsford, NY	Physician
Edward J. Pettinella Webster, NY	President and Chief Executive Officer, Home Properties
Carol Raphael New York, NY	President and CEO, Visiting Nurse Services of New York
Leonard E. Redon Pittsford, NY	Vice President, Western Operations, Paychex, Inc.
David D. Reh Victor, NY	President, The Raytec Group

Name and Residence	Principal Business Affiliation
Casper F. Sedgwick Fayetteville, NY	Retired
Albert J. Simone, PhD Rochester, NY	Retired
George F. T. Yancey, Jr. Rochester, NY	Managing Director, DeltaPointe Capital Management

The composition of the Plan's board of directors was in compliance with Section 4301(k)(1) of the New York Insurance Law as of December 31, 2008.

A review of the minutes of the attendance records at the Plan's board of directors' meetings held during the period under examination revealed that the meetings were well attended, with all directors attending more than one-half of the meetings they were eligible to attend.

The officers of the Plan as of December 31, 2008 were as follows:

Name	Title
David H. Klein	President & Chief Executive Officer
Paul von Ebers	Chief Operating Officer
Christopher C. Booth	Secretary
Emil D. Duda	Chief Financial Officer

It is noted that members of the Plan's board of directors and senior management officers are also members of the board of directors and senior management officers of the Parent, as well as other affiliated companies.

Effective January 7, 2009, Paul von Ebers resigned his position as Chief Operating Officer. David H. Klein was elected by the board of directors on March 27, 2009, as President, Chief Executive Officer and the Chief Operating Officer of Excellus Health Plan, Inc.

B. Territory and Plan of Operation

At December 31, 2008, the Plan was authorized to transact business throughout New York State. The Plan also held a Certificate of Authority under Article 44 of the New York Public Health Law as a health maintenance organization and was authorized to transact business as a health maintenance organization in the following counties in the State of New York:

Allegany	Erie	Madison	St. Lawrence
Broome	Essex	Monroe	Schuyler
Cattaraugus	Franklin	Montgomery	Seneca
Cayuga	Fulton	Niagara	Steuben
Chautauqua	Genesee	Oneida	Tioga
Chemung	Hamilton	Onondaga	Tompkins
Chenango	Herkimer	Ontario	Wayne
Clinton	Jefferson	Orleans	Wyoming
Cortland	Lewis	Oswego	Yates
Delaware	Livingston	Otsego	

Excellus participates in the Blue Cross Blue Shield Association's BlueCard program. This program allows Excellus members to receive treatment from providers participating in other Blue Cross Blue Shield Plans when they travel outside of Excellus' territory. In return, members of other Blue Cross and Blue Shield plans are permitted to obtain treatment from providers in Excellus' territory on a participating basis.

The following schedule shows direct premiums written in the State of New York during the five-year examination period:

Year	Premiums Written
2004	$4,013,350,348
2005	4,425,922,827
2006	4,814,870,270
2007	5,097,311,066
2008	4,978,984,015

As of December 31, 2008, health care services were provided to 1,661,879 members. The following chart shows annual membership changes during the examination period by number and percentage:

	2003	2004	2005	2006	2007	2008
Members	1,890,430	1,867,481	1,881,157	1,880,752	1,876,123	1,661,879
Change %		-1.21%	+0.73%	-0.02%	-0.25%	-11.42%

It was noted that the large decrease during calendar year 2008 was due, in large part, to the Plan's shift in business strategy, which resulted in the migration of insured members from community rated to self-insured contracts.

C. Reinsurance

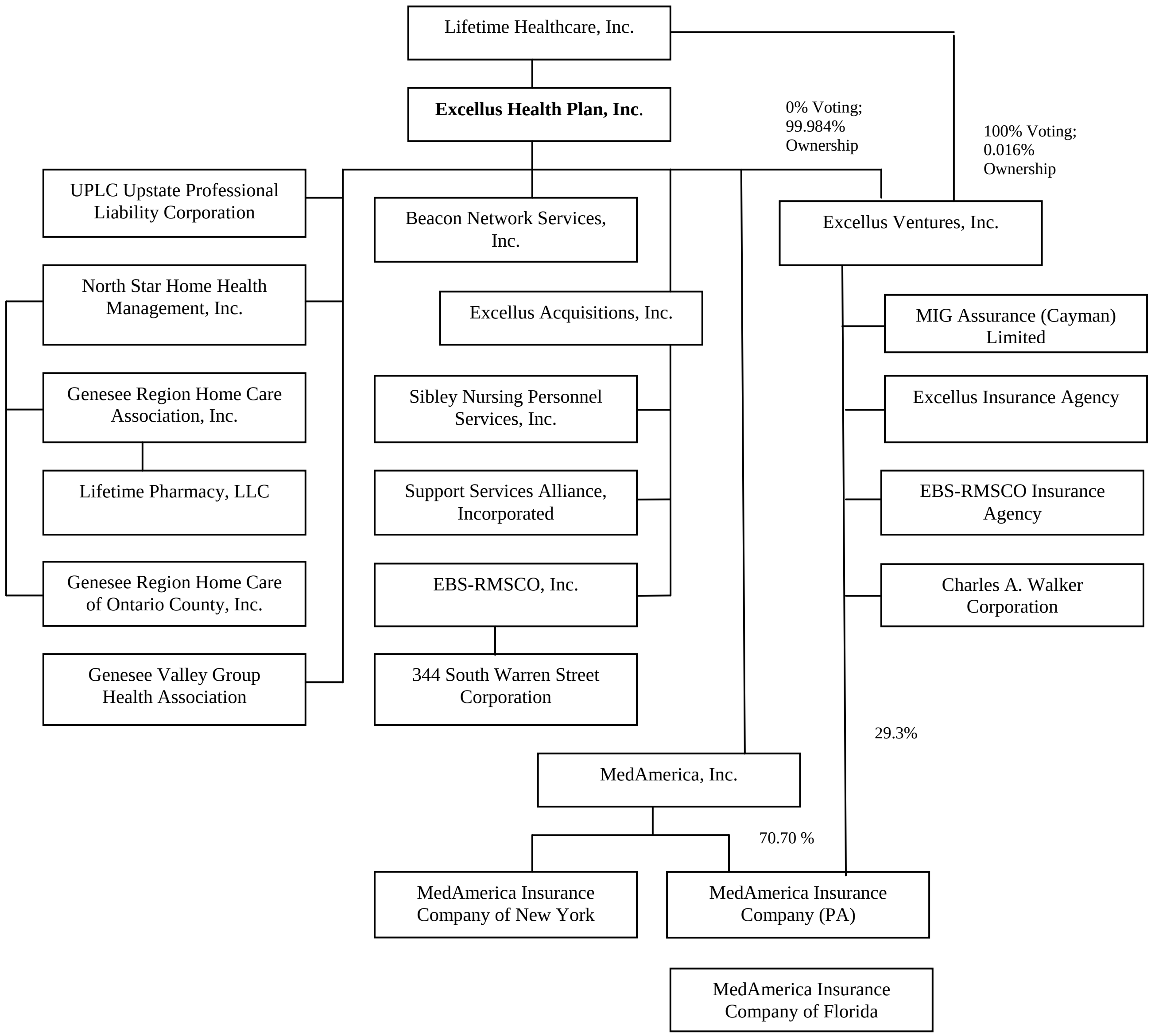
Effective December 31, 1989, the Plan entered into a 50% Bone Marrow and Organ Transplant reinsurance treaty with the BCS Insurance Company, an authorized reinsurer. This coverage consisted of two separate reinsurance pools that were settled annually. At the inception of the coverage year, each reinsurance participant was billed 70% of the estimated claims cost. The remaining 30% was payable to the extent that, at annual settlement, total experience was greater than the amount billed plus administrative expenses. The reinsurance treaty included an insolvency clause that met the requirements of Section 1308 of the New York Insurance Law. Such reinsurance treaty was terminated effective December 31, 2005.

The Plan did not maintain any reinsurance as of the examination date.

D. Holding Company System

As a member of a holding company system, the Plan is required to file registration statements pursuant to Article 15 of the New York Insurance Law and Department Regulation No. 52 (11 NYCRR 80). All pertinent filings made during the examination period, regarding the aforementioned statute and regulation were reviewed. No problem areas were encountered.

The following is the organizational chart of the Plan's holding company system as of December 31, 2008:



As of the examination date, the Plan maintained administrative services agreements with the following affiliated entities:

- Genesee Valley Group Health Association ("GVGHA" or "Lifetime Health Medical Group") provides to the Plan with regular and systematic services (i.e. - call center services for the following: utilization notification to members, appointment availability of providers, after hour access to clinical behavioral health providers, and follow-up calls for the behavioral health referral assistance program). Reimbursement is made to GVGHA for exact costs and in certain instances, on a cost study allocation basis. The agreement was dated January 1, 2002 and was amended January 1, 2009. The Department completed its review of the original agreement on May 4, 2004. The amended agreement, dated January 1, 2009, was approved by the Department.

- Genesee Region Home Care Association, Inc. and subsidiaries ("GRHC") d/b/a Lifetime Care provides marketing, fraud abuse service, and network development services to the Plan. In addition, GRHC provides outpatient clinical peer review for physical therapy, occupational therapy and speech therapy. GRHC also administers several programs as follows:
  - <u>Home Care Direct</u>, a program designed to streamline the number of calls physicians make for home care and durable medical equipment;
  - <u>CompassionNet Case Management</u>, a program that provides support to children with life threatening illnesses;
  - <u>Healthy Steps,</u> a program that provides at risk families with information and guidance concerning the physical, emotional, social and cognitive development of their child from birth to age three;
  - <u>The Home Administration Program,</u> an initiative that includes administering synagis (an FDA approved drug for the prevention of lower tract respiratory diseases) to infants at home.
  - Also, GRHC provides post-closure functions for Univera home care.

  Reimbursement is made to GRHC for exact costs and in certain instances, on a cost allocation basis. The Department issued a "no objection" letter relative to such agreement on June 21, 2004. The agreement was amended on December 24, 2007 and amended a second time on March 9, 2009. The Department issued "no objection" letters relative to the aforementioned amendments to this agreement.

- Univera Community Health, Inc. ("UCH"), formerly Buffalo Community Health Plan, Inc. is a not-for-profit prepaid health service plan (PHSP) that provides comprehensive health care to enrolled Medicaid, Family Health Plus, and Child Health Plus populations in western New York. The Plan is one of three members of UCH and the other two members are Erie County Medical Center ("ECMC"), and Kaleida Health ("Kaleida"). A management service agreement between Excellus and UCH was approved by the New York State Department of Health on April 18, 2007.

- EBS-RMSCO, Inc. ("RMSCO") is a wholly-owned subsidiary of Excellus Acquisitions, Inc., which in turn is a wholly-owned subsidiary of the Plan. RMSCO entered into a statutory merger on September 30, 2008, with the following wholly-owned subsidiaries of Excellus Acquisitions, Inc.: EBS Benefit Solutions, Inc. ("EBS"), Medical Claims Services ("MCS"), and Fringe Benefit Analysts ("FBA"). RMSCO, the surviving legal entity, changed its name to EBS-RMSCO, Inc., effective October 1, 2008. RMSCO administers the Plan's self-funded workers' compensation program, (i.e. - utilization review for clinical issues, case management, and pharmacy benefit management). In addition, it administers pre-existing condition, cosmetic services, and chiropractic consultant case management related reviews. RMSCO also provides claim reimbursement negotiations and second level reviews of claims denied for medical necessity under the terms of the agreement.

  This agreement, dated July 14, 2004, between Excellus and RMSCO, Inc. was initially submitted to the Department on February 20, 2004 and a "no objection" letter was issued by the Department relative to such agreement on July 8, 2004. The agreement was amended effective December 15, 2007 and a "no objection" letter was issued for this amendment on October 3, 2007.

- EBS-RMSCO Services, Inc., formerly EBS Benefit Services, Inc. prior to entering a pooling of interest merger on September 30, 2008, administers the Plan's employee welfare plan benefits, which include the pension plan, flexible spending accounts, dental and vision administration, COBRA administration and retiree premium billing. It also administers the variable pay plan and the Board of Directors deferred compensation plan programs.

  The agreement, dated June 1, 2005, between Excellus and RMSCO, Inc. was filed with the Department on May 11, 2005. The Department issued a "no objection" letter relative to this agreement on May 18, 2005. The agreement was amended effective January 1, 2006 and the Department issued a "no objection" letter dated November 30, 2006.

- Support Service Alliance, Inc. ("SSA") is a wholly-owned subsidiary of Excellus Acquisitions, Inc., which in turn is a wholly-owned subsidiary of the Plan. SSA administers insurance sales through the use of the Plan's internal sales force and associated services to small groups of 10 or fewer employees. The agreement was approved by the Department on September 6, 2007.

- MedAmerica Insurance Company of New York (MANY) is provided personnel, office space and related management services by the Plan under the terms of an administrative services agreement. In addition, the Plan provides reserve calculation, premium billing, collecting and reporting, and document services to MANY. The agreement, originally dated January 1, 2002, was renewed on March 1, 2004, and an amendment was filed with and approved by the Department on October 7, 2007.

- Excellus Insurance Agency ("EIA") is provided telephone services, print mail services, human resources, payroll services, and legal services by the Plan under the terms of an administrative services agreement. The agreement was effective December 10, 2007, and was approved by the Department on November 23, 2007.

It was also noted that Excellus is a party to a federal income tax allocation agreement with its Parent, Lifetime Healthcare, Inc. and its other eligible domestic subsidiaries. The federal income tax allocation agreement filed with the Department contains a provision that complies with Department Circular Letter No. 33 (1979) in that a method is established to ensure the domestic insurers enforceable right to recoup federal income taxes in the event of future net losses. The federal income tax allocation agreement was approved by the Department on October 5, 2005. The agreement was refiled with the Department on December 14, 2006, for the purpose of adding an escrow account and letter of credit clause and changing the effective date of the agreement to January 1, 2006. On December 28, 2007, the agreement was refiled again with the Department for the purpose of adding additional parties to the agreement and changing the effective date of the agreement to January 1, 2007.

The tax allocation agreement and amendments thereto have been approved by the Department.

Section 1505(d)(3) of the New York Insurance Law states, in part:

> "(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:
>
> ... (3) rendering of services on a regular or systematic basis;"

The Plan engaged in regular transactions with Excellus Ventures, Inc., an affiliate, without prior notification to the Superintendent. Such transactions were entered into in the Plan's role as the provider of administrative services to the affiliate, though such arrangement was made without a formal document.

It is recommended that the Plan comply with Section 1505(d)(3) of the New York Insurance Law and file with this Department an administrative services agreement for any affiliate for which the Plan renders services on a regular or systematic basis.

The Plan subsequently filed its administrative services agreement with Excellus Ventures, Inc. with the Department on July 6, 2009. The Department issued a "no objection" letter relative to such administrative services agreement on September 8, 2009.

Excellus, at the time of examination, had guarantees in place with two rating agencies, A.M. Best and Standard & Poors, relative to the guaranty of payment of the policyholder obligations of the following long-term care entities: MedAmerica Insurance Company ("MAPA"), MedAmerica Insurance Company of New York, Inc. and MedAmerica Insurance Company of Florida ("MAFL") collectively, the "MedAmerica Companies". These guarantees were disclosed in a footnote to the 2008 independent Certified Public Accountant's report of the Plan. The footnote indicated that the direct policyholder obligations amounted to $594,190,000 at December 31, 2008, but that management believed any possible payment related to the guarantees were remote and would not have a material impact on the Plan's liquidity or surplus.

The Department subsequently indicated in its letter dated November 6, 2009 to the Plan that, in issuing guarantees of insurance policy obligations of the MedAmerica Companies, the Plan was doing an insurance business of a kind it is not authorized for in New York.

In response to the above concerns raised by the Department, regarding the practice of guaranteeing the insurance obligations of the MedAmerica Companies, the Plan discontinued the guarantees for all policies issued by the MedAmerica Companies on and after July 1, 2010.

In this regard, the Plan entered into a Capital Support Agreement with the MedAmerica Companies, effective the same date in which the Plan agreed to take all actions to ensure that the MedAmerica Companies shall have sufficient assets for the timely payment of amounts due on policies issued by such Companies on or after July 1, 2010.

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:

	Amounts	Ratios
Total hospital and medical	$20,655,142,510	88.30%
Claims adjustment expenses	1,120,644,796	4.80%
General administrative expenses	1,169,821,602	5.00%
Net underwriting gain	447,373,427	1.90%
Net premium income	$23,378,982,335	100.00%

F. Investment Activities

During the examination period, the Plan contracted with nine investment managers for their diverse investment approaches and for specialized expertise. The activities of these nine investment managers were overseen by a consultant, Prime, Buchholz & Associates until October 1, 2004. Effective October 1, 2004, Cardinal Investment Advisors became the new investment consultant. The custodians for the Plan's investments during the examination period were as follows:

- M&T Bank – January 1, 2004 to February 1, 2004.
- HSBC Bank – February 1, 2004 to October 1, 2007.
- The Northern Trust Company – October 1, 2007 to present.

The Plan's board of directors during the examination period approved the Plan's investment strategy on an annual basis and at such times as a change in the investment strategy was made by the Plan.

G. Provider and Third Party Administrative Arrangements

As of December 31, 2008, the Plan maintained two third party administrative (TPA) agreements. The first agreement was with Vision Service Plan, Inc. (VSP), in which VSP provided vision care to Plan members on a capitated basis. The second agreement was with Landmark Chiropractic Services, which provided utilization review services to Univera Healthcare HMO members, also on a capitated basis.

H. Information Systems

An examination of the Plan's Information Systems was performed in which the areas of Information Technology ("IT") Governance, Logical Security, Computer Operations and Change Management/SDLC were reviewed. There were multiple areas of concern noted by the examiners, which were factored into the overall examination risk assessment.

Such areas of concern included the following deficiencies:

- The Plan's IT contracting process lacked the necessary due diligence required under best practices for an effective sourcing, co-sourcing and outsourcing of IT services.

- Contract language relative to contracts covering the outsourcing of application code development and support did not provide the necessary legal and technical protections to the Plan.

- IT Governance controls were not included within the Plan's assessment documentation and there was limited coverage of the Plan's logical security and SDLC controls.

- The Plan did not perform IT security assessments of its vendors at the time of initially entering into a contract for IT support services or on a periodic basis.

- Logical security deficiencies such as inadequate password settings, user accesss review and lack of segregation of duties were noted as being unmitigated relative to several critical claim and policy administration platforms.

- The Plan did not effectively identify or mitigate its IT inherent risk.

Ultimately, these concerns impacted the degree in which internal controls were reviewed and substantive testing was performed during the examination. Prior to the issuance of this examination report, the Plan initiated steps to begin to remediate or mitigate the risks associated with these concerns. Since the remediation efforts were not fully implemented at the time of this report, the effectiveness of these mitigation strategies was not tested by the examiners.

It is recommended that the Plan continue to take steps to mitigate the risks and areas of concern as noted by the examiners relative to its Information Technology section.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following compares the assets, liabilities, and total capital and surplus as determined by this examination with those reported by Excellus in its December 31, 2008 filed annual statement:

Assets	Examination	Plan	Surplus Increase/ (Decrease)
Bonds	$ 1,030,127,888	$ 1,030,127,888	
Preferred stocks	8,550,706	8,550,706	
Common stocks	262,179,389	262,179,389	
Real estate occupied by the company	47,359,033	47,359,033	
Cash and short-term investments	66,741,020	66,741,020	
Investment income due and accrued	7,015,030	7,015,030	
Uncollected premiums in the course of collection	169,970,175	169,970,175	
Accrued retrospective premiums	702,201	702,201	
Amounts receivable relating to uninsured plans	32,460,675	32,460,675	
Net deferred tax asset	35,818,064	35,818,064	
Guaranty funds receivable or on deposit	1,390,020	1,390,020	
Receivables from parent, subsidiaries and affiliates	17,238,146	17,238,146	
Health care and other amounts receivable	267,846,447	267,846,447	
Total assets	$ 1,947,398,794	$ 1,947,398,794	

Liabilities	Examination	Plan	Surplus Increase/ (Decrease)
Claims unpaid	$ 386,162,308	$524,270,308	$ 138,108,000
Accrued medical incentive pool and bonus amounts	8,115,615	8,115,615	
Unpaid claims adjustment expenses	26,658,996	26,658,996	
Aggregate health policy reserves	28,617,682	28,617,682	
Premiums received in advance	56,758,995	56,758,995	
General expenses due or accrued	94,263,502	94,263,502	
Amounts withheld or retained for the account of others	158,647,892	158,647,892	
Borrowed money	19,642,498	19,642,498	
Amounts due to parent, subsidiaries and affiliates	211	211	
Payable for securities	8,000,297	8,000,297	
Liability for amounts held under uninsured plans	41,123,166	41,123,166	
Post retirement and pension	120,990,674	120,990,674	
New York Insurance Law Section 4308(h) dividend /credit payable	2,360,000	2,360,000	
Total liabilities	$ 951,341,836	$ 1,089,449,836	$ 138,108,000
Capital and Surplus			
Statutory reserve requirement	$ 622,373,002	$ 622,373,002	
Unassigned funds (surplus)	373,783,956	235,575,956	$ 138,108,000
Total capital and surplus	$ 996,056,958	$ 857,948,958	$ 138,108,000
Total liabilities, capital and surplus	$1,947,398,794	$ 1,947,398,794	

Note: The Internal Revenue Service has completed its audits of the Plan’s federal income tax returns through tax year 2008. Except for any impact which may result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Plan to any further tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus increased $242,395,722 during the five-year examination period, January 1, 2004 through December 31, 2008, detailed as follows:

Revenue		
Net premium income	$ 23,364,077,596	
Change in unearned premium reserves and reserve for rate credits	(8,711,107)	
Fee for service	23,615,846	
Total revenues		$ 23,378,982,335
Expenses		
Hospital/medical benefits	$ 15,563,541,765	
Other professional services	632,251,609	
Outside referrals	21,393,347	
Emergency room and out-of-area	537,168,280	
Prescription drugs	3,240,009,852	
Other medical expense	612,884,832	
Incentive pool, withhold adjustments and bonus amounts	36,176,366	
Net reinsurance recoveries	2,283,541	
Total hospital and medical expenses	$ 20,641,142,510	
Claims adjustment expenses	1,120,644,796	
General administrative expenses	1,169,821,602	
Total underwriting deductions		22,931,608,908
Net underwriting gain		$ 447,373,427
Investment Income		
Net investment income earned	206,425,359	
Net realized capital gains or (losses)	3,091,423	
Net investment gains or (losses)		$ 209,516,782
Net income before federal income taxes		$ 656,890,209
Federal income taxes incurred		163,462,299
Net income		$ 493,427,910

Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination, as of December 31, 2003			$ 753,661,236
Net income	$ 493,427,910		
Net unrealized capital losses		$ 196,045,839	
Change in net deferred income tax	88,461,137		
Change in non-admitted assets		105,347,137	
Changes in accounting principles		34,422,868	
Aggregate write-ins for gains or (losses) in surplus		3,677,481	
Net change in capital and surplus			242,395,722
Capital and surplus, per report on examination, as of December 31, 2008			$ 996,056,958

4. COMMON STOCKS – SUBSIDIARY INVESTMENTS

The examination admitted asset of $262,179,389 is the same as the amount reported by the Plan as of December 31, 2008.

MedAmerica Insurance Company ("MAPA") is a Pennsylvania-domiciled long term care insurer, and an indirect subsidiary of the Plan. MAPA has entered into a reinsurance agreement with MIG Assurance (Cayman) ("MIG"), an unauthorized reinsurer domiciled in the Cayman Islands and an indirect subsidiary of the Plan. The MIG Reinsurance Agreement is supported, in part, by a letter of credit facility issued by Excellus Ventures, Inc. ("Ventures"), a direct subsidiary of the Plan, in favor of MAPA (the "LOC"). The LOC is partially collateralized by investment securities held by Ventures.

Based on 40 P.S. 442.1(b)(5) and 991.1405, the Pennsylvania Insurance Department has (1) approved the LOC as in compliance with the Pennsylvania holding company statute, (2) approved the LOC as an acceptable form of security in support of the MIG Reinsurance Agreement, and (3) recognized reinsurance credit for the full amount of the LOC.

Ventures is a downstream holding company of the Plan. MIG is a wholly-owned subsidiary of Ventures, and MAPA is a partially-owned subsidiary of Ventures.

The Department has raised concerns regarding the accounting impact of the recognition by the Pennsylvania Insurance Department of reinsurance credit for both the collateralized and uncollateralized portion of the LOC on the Plan's investment value in both MAPA and Ventures, particularly because the Plan used a revised methodology to determine the value of Ventures, subsequent to the examination date.

Subsequent to the examination date, the Department and the Plan have agreed to adopt a mutually acceptable methodology to address these issues on a prospective basis. This is detailed in the Subsequent Events section of this report.

5. CLAIMS UNPAID

The examination liability of $386,162,308 is $138,108,000 less than the $524,270,308 reported by the Plan as of December 31, 2008.

The examination analysis of the unpaid claims 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 its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a period 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, 2008.

It is recommended that the Plan revise its claims reserve methodology to provide for the establishment of its unpaid claim reserves at levels within a reasonable range. It is further recommended that the Plan demonstrate to the Department what proactive checks and measures it will institute to ensure that its unpaid claim reserving methodology will be adequate, but not excessive.

Similar recommendations were included within the prior Report on Examination.

6. SUBSEQUENT EVENTS

MedAmerica Insurance Company ("MAPA") is a Pennsylvania-domiciled long term care insurer. MAPA is an indirect subsidiary of Excellus. MAPA has entered into a reinsurance agreement with MIG Assurance (Cayman) ("MIG"), an unauthorized reinsurer domiciled in the Cayman Islands and an affiliate of MAPA. The MIG Reinsurance Agreement is supported, in part, by a letter of credit facility issued by Excellus Ventures, Inc. ("Ventures") in favor of MAPA (the "LOC"). The amount of the LOC changes over time. As of December 31, 2011, the LOC was in the amount of $125 million. The LOC is partially collateralized by investment securities held by Ventures.

Based on 40 P.S. 442.1(b)(5) and 991.1405, the Pennsylvania Insurance Department has (1) approved the LOC as in compliance with the Pennsylvania holding company statute, (2) approved the LOC as an acceptable form of security in support of the MIG Reinsurance Agreement, and (3) recognized reinsurance credit for the full amount of the LOC.

Ventures is a downstream holding company of Excellus, an insurer licensed under Article 43 of the New York Insurance Law. MIG is a wholly-owned subsidiary of Ventures, and MAPA is a partially-owned subsidiary of Ventures.

To resolve issues related to the accounting impact of the recognition by the Pennsylvania Insurance Department – in accordance with applicable Pennsylvania law – of reinsurance credit for both the collateralized and uncollateralized portion of the LOC, the Department recognizes the following permitted statutory accounting practices:

1. Excellus shall record a liability for the reinsurance credit taken by MAPA for cessions to MIG to the extent it is based upon the uncollateralized portion of the Ventures LOC. The offsetting charge associated with the establishment of the liability and any subsequent adjustments to the liability will be made directly to unassigned funds (surplus).

2. Excellus shall non-admit or reduce its investment in Ventures to the extent that investment securities reported on Ventures' balance sheet are pledged as collateral for the LOC issued to MAPA.

3. Provided that no changes are made to direct or indirect subsidiaries of Ventures other than the transfer of MAPA shares currently held by Ventures to MedAmerica, Inc., Excellus shall apply the limitation of not valuing a subsidiary below $0 at the Ventures level (i.e., downstream holding company level).

The above permitted practices will apply effective as of December 31, 2012, to be reported in the 2012 Annual Statement as of that date, and will remain in effect so long as the facts and circumstances giving rise to the practice exist, including the continued approval by the Pennsylvania Insurance Department of the full amount of the LOC as an acceptable form of security in support of the MIG Reinsurance Agreement.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2003, contained the following thirty (30) recommendations (page numbers refer to the prior report on examination).

ITEM NO.		PAGE NO.
	Management	
1.	It is recommended that the Plan maintain the required number of members on its board of directors in compliance with Article III, Section 1 of its by-laws. *The Plan has complied with this recommendation.*	6
2.	It is recommended that the members of the board act to control expenditures for off-site Board of Directors' meetings and retreats in accordance with its mission and strategy statements and consistent with the provisions of the New York State Not-For-Profit Corporation Law. *The Plan has complied with this recommendation.*	7
3.	It is recommended that the Plan report all amounts considered to be income to board members and officers as required pursuant to federal and state income tax laws. *The Plan has complied with this recommendation.*	8
	Holding Company System	
4.	It is recommended that, where applicable, administrative service agreements should be updated to reflect the current names of the signatories. *The Plan has complied with this recommendation.*	12

ITEM NO.		PAGE NO.
5.	It is recommended that the Plan comply with Circular Letter No. 33 (1979) and establish an escrow account or "… a method… to help assure the domestic insurer's enforceable right to recoup federal income taxes in the event of future net losses." It is further recommended that the Plan submit its tax allocation agreement to the Department. *The Plan has complied with this recommendation.*	13
6.	It is recommended that the Plan comply with Section 1505(d) of the New York Insurance Law and ensure that it has filed administrative service agreements with the Department for each affiliate which it engages in transactions with on a regular or systematic basis. *The Plan has not complied with this recommendation at all times during the examination period. A similar recommendation is included within this Report on Examination.*	13
	Investment Activities	
7.	It is recommended that the Plan comply with New York Insurance Law §1409(a) and not invest more that 10% of its admitted assets in the securities of any one institution. *The Plan has complied with this recommendation.*	15
8.	It is recommended that the Plan comply with SSAP No. 26, paragraph 6, and report investments at the proper value. *The Plan has complied with this recommendation*.	15
9.	It is recommended that the Plan establish appropriate controls to monitor the functions of its investment consultant, managers, and the broker/dealers who execute the buy/sell orders on behalf of the Plan. *The Plan has complied with this recommendation.*	16

ITEM NO.		PAGE NO.
10.	It is recommended that the Plan require a monthly statement from its investment managers listing all holdings and transactions initiated during the preceding month, highlighting any discrepancies with the custodian bank statement. *The Plan has complied with this recommendation.*	16
11.	It is also recommended that the Plan reconcile such statements to its investment inventory. *The Plan has complied with this recommendation.*	16
12.	It is recommended that the Plan formalize all changes, including modifications to compensation arrangements, to existing and future investment management agreements through an addendum or amendment. *The Plan has complied with this recommendation.*	17
13.	It is recommended that the entire investment strategy be presented to the board of directors whenever a change in strategy is proposed or advised. *The Plan has complied with this recommendation.*	17
14.	It is recommended that any change in a provision and/or condition of the October 16, 2004 agreement between Cardinal Investment Advisors, LLC and Lifetime Healthcare, Inc. be reflected in a written amendment or modification to the existing agreement. *The Plan has complied with this recommendation.*	17

ITEM NO.		PAGE NO.
15.	It is recommended that after Cardinal's review of Excellus' current investment strategy, any approved revisions to strategic and implementation approaches and newly approved investment directives be provided in writing to the Capital Markets Bureau. *The Plan has complied with this recommendation.*	18
16.	It is recommended that when the Audit and Finance Committee approves a new investment manager, the governing agreement be submitted to the Capital Markets Bureau for its review. *The Plan has complied with this recommendation.*	18
17.	It is recommended that the Plan retain the fourth quarter report incorporating year-to-date performance measures from each investment manager with which it has an agreement. *The Plan has complied with this recommendation.*	18
18.	It is recommended that the Plan limit the signing authority for checks to a specified number of individuals from the issuing departments. *The Plan has complied with this recommendation.*	19
19.	It is recommended that the Plan require a personal signature of the Treasurer on special checks issued for an amount greater than an established limit. *The Plan has complied with this recommendation.*	19

ITEM NO.		PAGE NO.
	Provider and Third Party Administration Arrangements	
20.	It is recommended that the Plan ensure that its third party agreements be consistent in their terms to assure compliance with New York State Insurance Department Regulation 152 (11 NYCRR 243). *The Plan has complied with this recommendation.*	20
	Accounts and Records	
21.	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. *The Plan has complied with this recommendation.*	20
22.	It is recommended that the Plan properly record information within their filed financial statements. *The Plan has complied with this recommendation.*	22
	Information Systems	
23.	It is recommended that the Plan install software to automatically lock desktop computers after a given period of disuse. *The Plan has complied with this recommendation.*	22
	Claims Unpaid	
24.	It is recommended that the Plan set its unpaid claim reserves at levels within a reasonable range and cease its practice of overstating such reserves. It is further recommended that the Plan demonstrate to the Department what proactive checks and measures it will institute to ensure that its unpaid claim reserving methodology will be adequate, but not excessive. *The Plan has not complied with these recommendations. Similar recommendations are contained in the report on examination.*	28

ITEM NO.		**PAGE NO.**
25.	It is recommended that the Plan re-submit its Loss Ratio reports for calendar years 2000 through 2003 using claims experience through December 31, 2004.	28
	The Plan has complied with this recommendation.	
	Treatment of Policyholders and Claimants	
26.	It is recommended that the Plan limit its funded member welfare programs to those which directly affect the general health of its members.	29
	The Plan has complied with this recommendation.	
27.	It is further recommended that in order for the cost of such programs to be included as part of claims cost, such programs should be established as policy riders so that Plan members have a choice as to whether or not they wish to have such options available.	30
	The Plan has complied with this recommendation.	
28.	Finally, it is recommended that the Plan comply with Section 4224(c) of the New York State Insurance Law and not utilize Plan funded "member benefit" programs as an inducement to enroll Members.	30
	The Plan has complied with this recommendation.	
29.	It is recommended that the Plan maintain its stored data for six years within a current database or data warehouse from which such data may be obtained in a timely and efficient manner.	30
	The Plan has complied with this recommendation.	
30.	It is recommended that the Plan establish an internal control to ensure that all claims over a certain threshold are reviewed prior to processing.	30
	The Plan has complied with this recommendation.	

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION – APPENDIX B - INFORMATION SYSTEMS REVIEW

The prior report on examination, as of December 31, 2003, contained the following twenty-two (22) recommendations pertaining to a review of the Plan's Information Systems.

ITEM NO.		PAGE NO.
	Logical Security Controls (UNIX)	
1.	It is recommended that Management use the Shadow option for all UNIX servers that house critical applications, such as Lawson and Facets. This feature would allow the company to store passwords for the system in an undisclosed location – where a user with basic knowledge of UNIX would not be able to locate it. It is also recommended that Management make this Shadow file readable and writeable only by individuals with access to the Root account. It is recommended that, at a minimum, management remove world readable permissions from the /etc/passwd file and grant permission to this file only to system administrators. Lastly, it is recommended that management review access to all application source, object and data files to ensure proper permissions have been set for access.	51
	The Plan has complied with this recommendation.	
	Logical Security Controls (UNIX)	
	Password Standards	52
2.	It is recommended that a minimal standard as follows: MinLength = 6, MaxAge = 60, MaxTry = 5, MinAge = 7, complexity set to alpha and numeric.	
	The Plan has complied with this recommendation.	
3.	It is recommended that the root login be locked to the console.	52
	The Plan has complied with this recommendation.	

ITEM NO.		PAGE NO.
	Change Management Policies and Procedures	
17.	It is recommended that Management establish a better link between the "Service Request Database" and the "Production Turnover Database". This will enable monitoring and the prevention of potential threats of inappropriate changes to production. *The Plan has complied with this recommendation.*	59
	Local Area Network Controls	
18.	It is recommended that the Plan research the installation of virus protection controls on the mainframe. *The Plan has complied with this recommendation.*	60
19.	It is recommended that a formal daily review/ sign-off process be established for the IDS and firewall. This paper trail will serve as evidence that these reviews have been conducted. *The Plan has complied with this recommendation.*	60
	Wide Area Network (WAN) and Interface Controls	
20.	Due to known security weaknesses associated with prior versions of PCAnywhere, it is recommended that management upgrade all versions of this software package to version 10.0 or above. In addition, it is recommended that a review be conducted to ensure that all systems with PCAnywhere installed conform to the policies stated. *The Plan has complied with this recommendation.*	61

ITEM NO.		**PAGE NO.**
	Physical Access	
21.	It is recommended that Management review access to their data centers and consider removing access to all individuals who are not assigned to the Data Center Operations or Technical Services Department. It is further recommended that management review this access periodically and remove individuals who do not have a business need to enter the facility. Upon reviewing the examiner's recommendation, management took certain corrective action, such as, reducing the number of non-operational staff with access to the data center. *The Plan has complied with this recommendation.*	62
	Business Continuity	
22.	It is recommended that Management perform a full Business Impact Analysis to prioritize the recovery of critical business processes and fully integrate the Business Continuity Plan with the Disaster Recovery plan. This Analysis should include scheduling and performing regular tests of the Business Continuity Plans in conjunction with Disaster Recovery testing. Additionally, all plans should be updated at least annually. *The Plan has complied with this recommendation.*	62

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Holding Company System	
	It is recommended that the Plan comply with Section 1505(d)(3) of the New York Insurance Law and file with this Department an administrative service agreement for any affiliate for which the Plan renders services on a regular or systematic basis.	16
	The Plan subsequently filed its administrative services agreement with Excellus Ventures, Inc. with the Department on July 6, 2009. The Department issued a "no objection" letter relative to such administrative services agreement on September 8, 2009.	
B.	Information Systems	
	It is recommended that the Plan continue to take steps to mitigate the risks and areas of concern as noted by the examiners relative to its Information Technology section.	20
C.	Claims Unpaid	
	It is recommended that the Plan revise its claims reserve methodology to provide for the establishment of its unpaid claim reserves at levels within a reasonable range. . It is further recommended that the Plan demonstrate to the Department what proactive checks and measures it will institute to ensure that its unpaid claim reserving methodology will be adequate, but not excessive.	26
	Similar recommendations were included within the prior Report on Examination.	

Appointment No. **30220**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **Kermitt J. Brooks**, Acting 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

Excellus Health Plan, Inc.

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

Plan

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 10th day of July, 2009

Kermitt J. Brooks
Acting Superintendent of Insurance

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR