

REPORT ON EXAMINATION

OF

HEALTHNOW NEW YORK INC.

AS OF

DECEMBER 31, 2008

DATE OF REPORT

JULY 24, 2012

EXAMINER

PEARSON GRIFFITH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 24, 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 30353, dated February 8, 2011, attached hereto, I have made an examination into the condition and affairs of HealthNow New York Inc., a not-for-profit 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 HealthNow New York Inc., located at 257 West Genesee Street, Buffalo, New York.

Wherever the designations “the Plan,” “HealthNow,” or “HNKY” appear herein, without qualification, they should be understood to mean HealthNow New York Inc.

Wherever the designation, “the Parent” appears herein, without qualification, it should be understood to indicate HealthNow Systems, 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.

It should be noted that the New York State Insurance Department merged with the New York State Banking Department on October 3, 2011, to become the New York State Department of Financial Services.

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, 2009* 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 by the examiners, 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 examiner’s assessment of risk in the Plan’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as to identify prospective risks that may threaten the future solvency of HealthNow New York Inc. 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 of the Plan.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined

management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and annual statement instructions.

Information concerning the Plan's organization 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 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 HNNY'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 examiner's review are contained in Item 5 of this report.

A separate examination into the manner in which the Plan conducts its business practices and fulfills its contractual obligations to policyholders and claimants was conducted as of December 31, 2008. A separate report on examination was issued thereon.

2. DESCRIPTION OF THE PLAN

HealthNow New York Inc., is a not-for-profit health service corporation organized under the provisions of the Membership Corporation Law and Article 43 of the New York Insurance Law. The Plan was incorporated in the State of New York on September 9, 1939, and commenced business on March 15, 1940. The Plan is a 100% controlled subsidiary of HealthNow Systems, Inc. ("HNS"), a New York non-profit corporation and a non-operating holding company. HNS is the sole member of the Plan.

The Plan established operations in the Albany, New York area as a separate division pursuant to its merger with Whole Health Insurance Network Inc., on December 30, 1992. Concurrent with the date of the merger, through May 1, 1996, the Plan operated under the corporate name, Blue Cross and Blue Shield of Western New York, Inc. The Plan subsequently effected name changes to New York Care Plus Insurance Company and its present name of HealthNow New York Inc., on May 2, 1996 and October 1, 1998, respectively.

The Plan, as of December 31, 2008, operated under the names of Blue Cross and Blue Shield of Western New York, within its Western New York division, HealthNow within its Central New York division and Blue Shield of Northeastern New York, within its Eastern New York division. On August 1, 1985, the Plan began the operations of Community Blue; a health

maintenance organization (“HMO”) authorized pursuant to Article 44 of the New York Public Health Law. Community Blue, an individual practice association (“IPA”) model health maintenance organization, functions as a line of business of the Plan. HNNY’s health maintenance operations are marketed under the name “Community Blue” in the Buffalo, New York area and under the name, “HealthNow” in the Albany, New York area.

A. Management and Controls

Pursuant to the Plan’s charter and by-laws, management of the Plan is to be vested in a board of directors consisting of not less than ten (10) or more than twenty-one (21) members. As of December 31, 2008, the Plan’s board of directors consisted of eleven (11) members. The board met at least four (4) times during each calendar year of the examination period.

The Plan’s board of directors is elected at its annual membership meeting which is held in March of each year. Per agreement with the Department, the Plan’s board of directors is the same directors as those who are elected to the HealthNow Systems, Inc., board of directors.

The Chairperson and President and Chief Executive Officer were members of the Plan’s board of directors as of December 31, 2008 in compliance with Article IV, Section 2(a) of HealthNow’s by-laws.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
<u>Provider Representatives</u>	
Stephen P. Boyle Slingerlands, New York	Chief Executive Officer, St. Peters Hospital Albany, New York
Wesley L. Hicks, Jr. MD Angola, New York	Physician, Roswell Park Cancer Institute, Buffalo, New York
June W. Hoeflich Williamsville, New York	President and Chief Executive Officer, Sheehan Memorial Hospital, Buffalo, New York
<u>Subscriber Representatives</u>	
Donald K. Boswell Williamsville, New York	President, Western New York Public Broadcasting Association
John J. Canavan Orchard Park, New York	Agent and Consultant, Realty USA
Thomas J. Murrer, CPA Williamsville, New York	President, Renold Holdings, Inc.
Denis M. Penman Orchard Park, New York	Executive Vice-President, MJ Peterson Real Estate
<u>Public Representatives</u>	
Gwen O. Acara Buffalo, New York	Executive Search Consultant
Lois B. DeFleur, Ph.D. Vestal, New York	President, State University of New York, Binghamton
Frank B. Mesiah Buffalo, New York	Retired
<u>Officer-Employee</u>	
Alphonso V. O'Neill-White Amherst, New York	President and Chief Executive Officer, HealthNow New York Inc.

In April 2008 HealthNow notified the Department that the composition of its board of directors had been reduced from twelve members to eleven members, of whom three, were classified under the “Provider representative” category.

This condition violated Section 4301(k)(1) of the New York Insurance Law which states, in part:

“The board of directors of each health service, hospital service or medical expense indemnity corporation subject to this article shall be composed of persons who are representative of the member hospitals or licensed medical professionals of such corporation, persons covered under its contracts and the general public...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...”

Based on the composition of the board, the Plan should have limited the “Provider representative” category to no more than two members. The Department directed HealthNow to correct this violation in 2008.

However, the Plan’s filed 2008 annual statement listed three directors who were designated as “Provider representatives”. When this condition was brought to management’s attention, HealthNow informed the examiner that in January 2009, Ms. Hoeflich retired as Chief Executive Officer of Sheehan Memorial Hospital and her board of directors’ representation as a “Provider representative” was changed to that of a “Public representative.” Further, the Plan informed the examiners that in July 2009, it discovered that Ms. Hoeflich was a board member of Roswell Park Cancer Institute and that her representation was changed from “Public representative” back to “Provider representative”. HealthNow advised the examiner that the situation has been resolved and HealthNow has reported that it has been compliant with the

provisions of Section 4301(k)(1) of the New York Insurance Law since December 31, 2010.

It is recommended that the Plan comply with the provisions of Section 4301(k)(1) of the New York Insurance Law by maintaining the required board of directors' composition.

The examiner reviewed the minutes of the board of directors' meetings, and the attendance of board members at such meetings, for the period under examination.

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

<u>Name</u>	<u>Title</u>
Alphonso V. O'Neil-White	President and Chief Executive Officer
Cheryl A. Howe	Executive Vice-president, Operations
Catherine M. Campbell	Senior Vice-President, State and Federal Products
Thomas A. Fentner	Senior Vice-president, Human Resources and Administrative Services
Michael R. Giaquinto	Senior Vice-President, General Business Strategic Business Unit
Stephen G. Jepson	Senior Vice-president, Major Accounts
Nora K. McGuire	Senior Vice-president, Self-Insured/Brokerage Accounts
Jay I. Pomerantz, MD*	Senior Vice-president, Healthcare Services and Chief Medical Officer
Lawrence F. Thompson	Senior Vice-president, Self-Insured/Brokerage Accounts Strategic Business Unit
Vacant**	Senior Vice-president, Chief Financial Officer
Kenneth J. Sodaro, Esq.	Vice President, Corporate Compliance, General Counsel & Corporate Secretary
Christopher M. Leardini**	Vice-president, Interim Chief Financial Officer, Controller and Treasurer
Mark J. DePalma	Vice-President, Chief Marketing Officer

*Dr. Pomerantz resigned effective July, 14 2009 and was replaced by Cynthia Ambres, MD on August 24, 2009.

**Stephen Swift became Chief Financial Officer on February 23, 2009.

B. Territory and Plan of Operation

At December 31, 2008, the Plan was authorized to transact business in all counties of New York State. The Plan currently operates four divisions as follows:

Buffalo Division

The Buffalo division, doing business as Blue Cross and Blue Shield of Western New York, conducted business within the following eight counties of New York State:

Allegany	Chautauqua	Genesee	Orleans
Cattaraugus	Erie	Niagara	Wyoming

Albany Division

The Albany division, doing business as Blue Shield of Northeastern New York, conducted business within the following eighteen counties of New York State:

Region I (Upstate)	Albany	Greene	Schenectady
	Clinton	Montgomery	Schoharie
	Columbia	Rensselaer	Warren
	Essex	Saratoga	Washington
	Fulton		
Region II (Downstate) (Operates as HealthNow)	Dutchess	Putnam	Ulster
	Orange	Sullivan	

The Albany division was acquired by the Plan through the merger with Whole Health Insurance Network Inc., on December 30, 1992.

Central New York Division

The Central New York division, doing business as HealthNow, operates in the following eleven counties of New York State:

Cayuga	Livingston	Ontario	Tompkins
Chemung	Monroe	Oswego	Wayne
Cortland	Onondaga	Schuyler	

Binghamton Division

The Plan operates the Upstate Medical Division (UMD) in Binghamton, NY. This division, acquired through the merger with Whole Health Insurance Network Inc., is used solely for the administration of the Plan's Medicare Part B contract. In accordance with a contract with the Centers for Medicare & Medicaid Services (CMS), the Plan processes Medicare Part B claims for Medicare recipients in forty-five (45) counties of New York State. The Plan is reimbursed for all administrative costs, in accordance with certain guidelines, in connection with this program.

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

(in thousands)				
	Net Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2004	606,358	275,291	2,062,108	62,585
2005	698,681	363,736	2,155,452	91,216
2006	763,891	462,020	2,110,474	79,992
2007	809,468	496,428	2,138,913	75,746
2008	\$ 782,695	\$ 445,557*	\$ 2,271,141	\$ 25,407

* The two significant items that resulted in the decrease in 2008 surplus were: (a) Net Investment Income decreased 142% in 2008 versus 2007 to \$ (19.2) million; and (b) The Plan recognized an additional minimum pension liability of \$20.2 million as of December 31, 2008 as plan asset values declined from capital market performance during the 4th quarter of 2008.

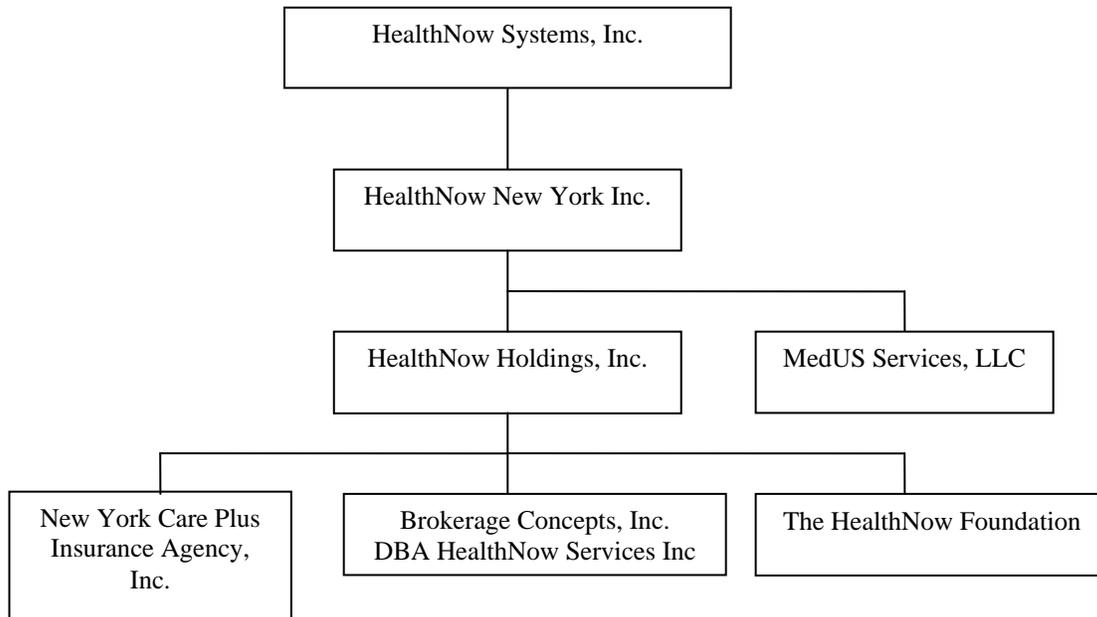
C. Reinsurance

The Plan did not maintain any reinsurance agreements during the examination period.

D. Holding Company System

As a member of a holding company system, HNNY is required to file registration statements pursuant to the requirements of Section 1503 of the New York Insurance Law and Department Regulation No. 52 (11 NYCRR 80). All pertinent filings made regarding the aforementioned statutes during the examination period were reviewed and no problem areas were encountered.

The following chart depicts the Plan and its relationship to its parent and affiliates as of December 31, 2008.



The following is a description of the Plan's affiliations as of December 31, 2008:

HealthNow Systems, Inc. (formerly New York Care Plus Holding Company, Inc.)

On March 15, 1996, the Plan received approval from the Department to form a holding company pursuant to Section 1506 of the New York Insurance Law. The corporation was formed under Section 102(a)(5) of the New York Not-for-Profit Corporation Law for the purpose of acting as a holding company. HealthNow Systems, Inc. (formerly New York Care Plus Holding Company, Inc.), through amendments of the by-laws of HealthNow New York Inc. (formerly, New York Care Plus Insurance Company, Inc.), became the sole member of the Plan.

In accordance with Article IV, Section 2(b) of the Plan's by-laws, the members of the board of directors of HealthNow New York Inc. are identical to the board of directors of HealthNow Systems, Inc.

HealthNow Holdings, Inc.

HealthNow Holdings, Inc. is a holding company operating pursuant to Section 1704(a) of the New York Business Corporation Law. It is a wholly-owned subsidiary of the Plan and operates as a holding company for New York Care Plus Insurance Agency, Inc., Brokerage Concepts, Inc. and HealthNow Foundation.

New York Care Plus Insurance Agency, Inc.

This wholly-owned subsidiary sells HealthNow New York Inc. and other products and services, such as health and life insurance, long-term care and disability insurance, other consumer-oriented insurance or healthcare financing lines, and stop-loss offerings.

The HealthNow Foundation

The HealthNow Foundation, d/b/a the Foundation for Healthy Living ("the Foundation"), is a wholly-owned New York non-profit corporation, which was organized exclusively for charitable purposes.

MedUS Services, LLC

MedUS Services, LLC ("MedUS"), a wholly-owned subsidiary of the Plan was formed to administer Medicare Part B fee-for-service business within 45 upstate counties of New York through August 30, 2008. Effective September 1, 2008, MedUS began administering the fee-for-service business as a subcontractor to National Government Services ("NGS"). It was noted that in 2009, MedUS's contract with NGS was terminated.

Brokerage Concepts, Inc. ("BCI")

BCI, located in King of Prussia, PA, was acquired by HealthNow on June 6, 2006, for an initial purchase price of \$23,999,524 plus additional subsequent payments of \$6,500,000 and \$7,567,084 (the additional payments are discussed later in this section) aggregating to a total purchase price of \$38,066,608. Such acquisition was approved by the Department.

BCI provides benefits consulting for fully insured and self-funded benefit plans, third-party claims processing of medical and related claims processes and administration of self-funded plans, and operates as a broker with regard to health, life, dental, vision, disability and annuity products, as well as providing other managed care services, including utilization services

to self-funded groups. BCI also provides HealthNow with administrative and operational services relative to HealthNow's self-insured ("ASO") business.

During the course of this examination, the Department reviewed various documents associated with the acquisition of Brokerage Concepts, Inc., by HealthNow New York Inc., to ascertain BCI's viability within the framework of HealthNow's organization.

A review of the 2008 HealthNow annual statement, Schedule Y: Part 2 showed the only transaction listed was for *Capital Contributions* in the amount of \$5,961,945. In addition, HealthNow's 2008 annual statement, Schedule D, Part 2, Section 2 showed the *Book/Adjusted Carrying Value* and *Fair Value* of BCI's common stock as \$17,600,000 (*Actual Cost* \$23,998,724), and an *Unrealized Valuation Decrease* of \$5,961,945. However, the examiner determined that HealthNow made no formal capital contributions to BCI during 2008. The examiner also noted that BCI incurred a net loss of \$13,338,737 for the year 2008, and that HealthNow made a payment of \$7,567,084 in 2008 as additional purchase price consideration pursuant to the BCI-HNNY Purchase Agreement. The examiner requested an explanation of *Capital Contributions* in the amount of \$5,961,945, whereupon the Plan responded that the amount was BCI's reported net loss for the year 2008.

Statement of Statutory Accounting Principles No. 25 of the *NAIC Accounting Practices and Procedures Manual* states, in part:

"...The financial statements shall include disclosures of all material related party transactions..."

The Plan did not accurately disclose within its filed 2008 financial statements all material related party transactions in accordance with the provisions of Statement of Statutory Accounting

Principles No. 25 of the *NAIC Accounting Practices and Procedures Manual*, and the *NAIC Annual Statement Instructions – Health*.

A review of HealthNow’s trial balance as of December 31, 2008 indicated the following account balances:

13150 - BCI Inter-company Receivable	\$ 7,462,538
13152 - Non-Admitted BCI Inter-company Receivable	(7,437,848)
14701 - Liability Due From/To Affiliates	(4,040,922)*

*The company stated that \$483,833 of this balance related to BCI.

HealthNow indicated that the majority of the inter-company receivable shown above was for reimbursement due to HNNY relative to HNNY’s payment of BCI’s payroll expenses.

However, a review of HealthNow’s general ledger details for the above accounts indicated no evidence of intercompany “settlement” transactions, as called for in the provisions of the tax allocation and administrative service agreements between HealthNow and BCI.

It should be noted that HNNY elected to “non-admit” BCI’s overdue balance. The examiner was advised that since BCI “was unable to reimburse HealthNow for services performed on BCI’s behalf, management reported such as a non-admitted asset within its filed annual statement as of December 31, 2008.” A HNNY officer explained that since “BCI did not possess adequate capital to pay HNNY for its services, a management decision to non-admit the receivable had been made.”

It is recommended that the Plan implement appropriate improvements to its policies, procedures, controls and training concerning related party transactions, to comply with the

mandates of Statement of Statutory Accounting Principles No. 25 of the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions – Health.

As disclosed in Note 2 of BCI's 2008 audited financial statements, HealthNow New York Inc., paid additional purchase price considerations of \$7,567,084 and \$6,500,000 during 2008 and 2007 respectively, based upon the achievement of certain revenue targets achieved by BCI. BCI recognized these additional purchase price considerations as additional goodwill and as additional paid-in capital.

In addition, during 2008 and 2007, BCI recognized the following losses:

	2008 Impairment <u>Losses</u>	2007 Impairment <u>Losses</u>
Decline in the fair value of goodwill	\$ 7,153,098	
Decline in the fair value of management non-compete agreements	2,620,000	\$ 1,363,333
Decline in the fair value of trade name	603,000	
Decline in the fair value of customer relationships		2,757,000

It should be noted, per Note 2 of BCI's 2008 audited financial statements, that the total purchase price of the company as of December 31, 2008 was \$36,331,395. The total impairment losses through December 31, 2008 were \$14,496,431. Based on the decline of BCI's intangible assets in the two years since acquisition by HNNY, it appears that the purchase price and valuation were overstated.

It is recommended that HealthNow review the methodology and underlying assumptions used for its valuation of BCI and determine whether its current valuation methodology provides the most accurate results.

Subsequent to the examination date, the Plan engaged a consultant to determine the fair value of BCI as of October 31, 2011, in connection with its annual goodwill impairment assessment. The consultant utilized the discounted cash flow method under the income approach to value. The consultant also considered the guideline company and transaction methods under market approach. Based on the valuation procedures it performed, the consultant opined that the fair value of BCI's equity as of October 31, 2011, was greater than its carrying value, thus concluding that goodwill was not considered impaired.

It is recommended that HealthNow conduct an assessment of prospective risks with respect to the BCI transformation.

Intercompany Agreements

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

Tax Allocation Agreement

This agreement made between HealthNow Systems, Inc., HealthNow New York Inc., HealthNow Holdings, Inc., Brokerage Concepts, Inc. and MedUS Services, LLC provided for a federal income tax allocation methodology which was in compliance with Department Circular Letter No. 33 (1979). This agreement was approved by the Department.

Administrative Services Agreement between HealthNow New York Inc., and Brokerage Concepts, Inc.

This agreement made between HealthNow New York Inc., and Brokerage Concepts, Inc., provided for HealthNow to provide specified administrative services, including legal, internal audit, office space, and human resources to Brokerage Concepts, Inc., and for Brokerage Concepts, Inc., to provide third-party administration services relative to HealthNow's ASO business.

Fees relative to services provided by HealthNow to BCI are to be made on a cost basis, which includes an allocation methodology for shared expenses. Such payment methodology was based on a "no-gain" and "no-loss" basis. For services provided by BCI to HealthNow, such payments are made according to agreed upon fees according to individual tasks. The agreement was approved by the Department.

Administrative Services Agreement between HealthNow and The HealthNow Foundation

This agreement provided for HealthNow to provide specified administrative services to The HealthNow Foundation. The agreement was approved by the Department.

Administrative Services Agreement between HNNY and MedUS Services, LLC.

This agreement provided for HealthNow to provide specified administrative services to MedUS Services, LLC. The agreement was approved by the Department.

E. Significant Operating Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Total hospital and medical	\$9,386,264,397	87.41%
Claim adjustment expenses	270,370,297	2.52%
Cost containment expenses	68,675,027	0.64%
General administrative expenses	725,410,117	6.75%
Net underwriting gain	<u>287,369,019</u>	<u>2.68%</u>
Net premium income	<u>\$10,738,088,857</u>	<u>100.00%</u>

F. Investment Activities

Cash levels and equity allocation declined in 2008 over 2007, with a commensurate increase in bonds, resulting in part, to a lower investment yield. Lower investment income impacted the magnitude of net income. The 2008 Risk-Based Capital ratio of 573.1% declined by 104.7% from the 2007 ratio of 677.8%.

The fixed income portfolio, whose credit quality is characterized, on average, as “high grade,” contains issues of entities that may continue to face challenges, such as public utilities, the Metropolitan Transportation Authority, various New York City authorities, etc. The Plan continued to reduce its holdings of United States government/agency securities while increasing its allocation in the industrial/utility sector and acquisition of state and local government debt.

The Plan’s diversified equity holdings comprised nearly one-fifth of its invested assets at year-end 2008. The Plan realized material capital losses and recorded unrealized capital losses on its non-affiliated securities. The modest-sized preferred stock portfolio contains issues of

Wachovia and Bank of America, as well as those of its own affiliates. The capital losses stemming from these two portfolios contributed to the negative total return in 2008.

G. Enterprise Risk Management (“ERM”)

At the time of the examination, there was no Department or statutory requirement for an ERM function. In 2010, the Plan created an independent Enterprise Risk Management (ERM) function, led by a Chief Risk Officer, to aggregate risk activities across market, credit, liquidity, IT, operational, strategic, reputational and business continuity categories of risk.

The Chief Risk Officer reports directly to the Chief Executive Officer and the Audit Committee of HealthNow's Board. The Plan has developed an ERM maturation framework that incorporates five key governance and risk management disciplines for its operational and strategic planning functions. These disciplines help to frame governance practices to ensure resident risk elicitation mechanisms and risk management ownership within the Plan.

HealthNow established two risk-focused internal committees, the Enterprise Risk Management Steering Committee and the Operational Committee, that consist of management personnel, risk champions, and subject matter experts representing diverse business units and risk management functions. The ERM Steering and Operational Committees' mission is to be the corporate forums that pro-actively enable the exchange of ideas, information, education, and decisions surrounding the Plan's enterprise wide risk issues and management protocols in a collaborative, non-punitive, consensus focused, and culturally progressive environment. The ERM Steering Committee function has been integrated within the monthly Officers Meeting agenda led by the CEO.

The Enterprise Risk Management office is comprised of the enterprise risk assessment, compliance and privacy, internal audit, performance audit, business continuity and insurance functions. The group's overarching policy mandate is to assist the Plan in the growth and development of risk management practices through the establishment, implementation and maintenance of the ERM framework and policies, and to oversee governance and risk management practices throughout the Plan. HealthNow is in the process of institutionalizing an enterprise-wide risk elicitation process. This process includes economic and investment risk and includes a five step risk management model that is aimed at understanding what material risk events can compromise HealthNow's ability to achieve its goals, assess the best risk response and monitor for the response effectiveness. Goals assessed include financial goals, operational goals, project goals, and strategic longer term goals. These material risks are logged along with their proposed risk responses within an Enterprise Risk Management Information System (ERMIS). This risk register functions as the central repository for HNNY risks to enable routine risk reporting and proactive management of risk response plans.

Subsequent to the examination date, the Department issued Circular Letter No. 14 (2011) on December 19, 2011, to encourage insurers to adopt a formal Enterprise Risk Management (“ERM”) function, to identify, measure, aggregate, and manage risk exposures within predetermined tolerance levels, across all activities of the enterprise of which the insurer is part, or at the company level when the insurer is a stand alone entity.

H. Information Systems

A review of the control environment of the Plan's Information Systems ("IS") was also performed during the examination. Although it was noted that the Plan's Information Systems Department does identify risk, controls and mitigation strategies, there was no apparent direct communication of specific risks concerns to the Plan's management and the Plan's board of directors because of the above noted ERM process being in a developmental stage.

It is recommended that the review of the risk and control environment applicable to the Plan's Information Systems be incorporated within the Plan's Enterprise Risk Management function.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following compares the assets, liabilities and capital and surplus as determined by this examination with those reported by HealthNow New York Inc., in its filed annual statement as of December 31, 2008:

<u>Assets</u>	<u>Examination</u>	<u>Plan</u>
Bonds	\$ 449,991,728	\$ 449,991,728
Preferred stocks	3,619,766	3,619,766
Common stocks	119,885,096	119,885,096
Cash	39,902,343	39,902,343
Aggregate write-ins for invested assets	6,155,737	6,155,737
Investment income due and accrued	3,912,529	3,912,529
Uncollected premiums in course of collection	95,923,786	95,923,786
Amounts receivable relating to uninsured plans	4,307,573	4,307,573
Net deferred tax asset	19,787,340	19,787,340
Guaranty funds receivable or on deposit	7,800,000	7,800,000
EDP processing equipment and software	277,366	277,366
Health care and other amounts receivable	30,229,258	30,229,258
Aggregate write-ins for other than invested assets	<u>902,740</u>	<u>902,740</u>
Total assets	\$ <u>782,695,262</u>	\$ <u>782,695,262</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Plan</u>
Claims unpaid	\$ 189,000,000	\$ 189,000,000
Accrued medical incentive pool and bonus amounts	14,704,438	14,704,438
Unpaid claims adjustment expenses	7,718,350	7,718,350
Aggregate health policy reserves	10,486,210	10,486,210
Premiums received in advance	17,906,540	17,906,540
General expenses due or accrued	23,100,209	23,100,209
Federal and foreign income tax payable and interest thereon	(4,173,550)	(4,173,550)
Amounts withheld or retained for the account of others	284,609	284,609
Aggregate write-ins for other liabilities	<u>78,111,260</u>	<u>78,111,260</u>
Total liabilities	\$ <u>337,138,066</u>	\$ <u>337,138,066</u>
 <u>Capital and surplus</u>		
Aggregate write-ins for other than special surplus	\$ 284,030,096	\$ 284,030,096
Unassigned funds	<u>161,527,100</u>	<u>161,527,100</u>
Total capital and surplus	<u>445,557,196</u>	<u>445,557,196</u>
Total liabilities, capital and surplus	\$ <u>782,695,262</u>	\$ <u>782,695,262</u>

Note: The Internal Revenue Service has not conducted any audits of the income tax returns filed on behalf of the Plan through tax year 2008. The examiner is unaware of any potential exposure of the Plan to any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus increased \$ 223,563,237 during the five-year examination period, January 1, 2004 through December 31, 2008, detailed as follows:

Revenue

Net premium income	\$ 10,744,712,418	
Change in unearned premium reserves	<u>(6,623,561)</u>	
Total revenue		\$ 10,738,088,857

Hospital and medical expenses

Hospital/medical benefits	\$ 7,022,615,818
Other professional services	356,347,081
Emergency room and out-of-area	474,309,681
Prescription drugs	1,379,986,148
GME	32,055,135
Pool expenses and recoveries	(31,011,615)
Incentive pool, withhold adjustments and bonus amounts	<u>151,962,149</u>
Total hospital and medical benefits	\$ <u>9,386,264,397</u>

Administrative expenses

Claims adjustment expenses	270,370,297
Cost containment expenses	68,675,027
General administrative expenses	<u>725,410,117</u>
Total administrative expenses	\$ <u>1,064,455,441</u>

Total underwriting deductions	<u>10,450,719,838</u>
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Net underwriting gain/loss	\$ 287,369,019
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Net investment income earned	102,038,952
Net realized capital gains/losses	<u>(10,189,327)</u>
Net investment gains/losses	91,849,625

Other income	<u>42,296,616</u>
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Net income before federal and foreign income taxes	421,515,260
Federal and foreign income taxes incurred	<u>86,570,185</u>
Net income	\$ <u>334,945,075</u>

Changes in Capital and Surplus

Capital and surplus, per report on examination, as of December 31, 2003			\$ 221,993,959
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$ 334,945,075		
Net unrealized capital losses		\$ 34,437,066	
Change in net deferred income tax	9,536,045		
Change in non-admitted assets		65,727,372	
Change in surplus notes		5,699,554	
Additional minimum pension liability		17,222,038	
Change in deferred tax asset	<u>2,168,147</u>	<u>0</u>	
	346,649,267	123,086,030	
Net increase in capital and surplus			<u>223,563,237</u>
Capital and surplus, per report on examination, as of December 31, 2008			\$ <u>445,557,196</u>

4. CLAIMS UNPAID

The examination liability of \$189,000,000 is the same as the amount 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.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination, as of December 31, 2003 contained the following eleven financial related recommendations (page number refers to the prior report on examination):

ITEM NO.

PAGE NO.

Consolidated Federal Corporate Income Tax Filings

- | | | |
|----|---|----|
| 1. | It is recommended that the Plan maintain a consolidated tax agreement with HealthNow Systems, Inc. as required by Section 1505(d) of the New York Insurance Law. It is further recommended that said consolidated tax agreement be constructed in conformity with Circular Letter No. 33 of 1979. | 16 |
|----|---|----|

The Plan has complied with this recommendation.

Administrative Expenses

- | | | |
|----|---|----|
| 2. | It is thus recommended that the Plan comply with the 12.5% administrative expense ratio limitation prescribed by Section 4309(b) of the New York Insurance Law. | 21 |
|----|---|----|

The Plan has complied with this recommendation.

Accounts and Records

- | | | |
|----|--|----|
| 3. | It is again recommended that the Plan comply with the annual statement instructions and exercise greater care in the preparation of its filed financial statements to this Department. | 23 |
|----|--|----|

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.****Healthy New York Reporting**

4. It is recommended that, in the future, the Plan appropriately reconcile its financial records, annual and quarterly statement filings including its Healthy New York Report No. 4 filings, its Section 4308(h) of the New York Insurance Law reports, and its Healthy New York Loss ratio reports. 24

The Plan has complied with this recommendation.

5. In those instances where such financial filings differ, it is recommended that the Plan submit a detailed reconciliation of the differences as an attachment to such reports. 24

The Plan has complied with this recommendation.

6. It is further recommended that the Plan book all appropriate receivables and accruals on its books and report such receivables and accruals in all related filings and reports according to instructions. 24

The Plan has complied with this recommendation.

EDP Testing

7. It is once again recommended that all critical business functions be tested at the recovery site in order to provide assurance of continuity of business in a recovery situation. 25

The Plan has complied with this recommendation.

8. It is once again recommended that the Plan, at some point in the future, schedule a test for full data recovery. 25

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Business Continuity Plan (BCP) – Binghamton

9. It is once again recommended that the Binghamton division BCP should contain similar wording and terms as its third party claims administrator's BCP. 25

The Plan has complied with this recommendation.

Uncollected Premiums

10. It is recommended that the Plan reconcile the amount reported in the general ledger and the amount reported in the aged accounts receivable report. 30

The Plan has complied with this recommendation.

Electronic Data Processing Equipment

31

11. It is recommended that the Plan report its current and any future telephone system under the non-admitted asset caption, "Equipment, furniture and supplies" and comply with the provisions of Section 1302 of the New York Insurance Law.

The Plan has complied with this recommendation.

Appointment No. 30353

**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:

Pearson Griffith

as a proper person to examine into the affairs of the

HealthNow New York, Inc.

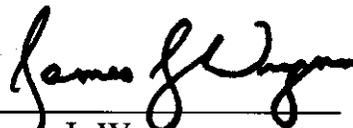
and to make a report to me in writing of the condition of the said

HMO

with such other information as he shall deem requisite.

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

this 08th day of February, 2011



James J. Wrynn
Superintendent of Insurance

