REPORT ON EXAMINATION

OF

OXFORD HEALTH INSURANCE, INC.

AS OF

DECEMBER 31, 2002

DATE OF REPORT **MARCH 2, 2004**

EXAMINER **BRUCE BOROFSKY**

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, NY 12257

Date: March 2, 2004

Sir:

Pursuant to the provisions of the New York Insurance Law and in accordance with the instructions contained in Appointment Number 22077 dated July 3, 2003, attached hereto, I have made an examination into the condition and affairs of Oxford Health Insurance, Inc., as of December 31, 2002 and submit the following report thereon.

The examination was conducted at the Company's home office located at 48 Monroe Turnpike, Trumbull CT.

Wherever the designations "the Company" or "OHI" appear herein, without qualification, they should be understood to indicate Oxford Health Insurance, Inc., a wholly-owned subsidiary of Oxford Health Plans (NY), Inc.

Wherever the designation "OHPNY" appears herein, without qualification, it should be understood to indicate Oxford Health Plans, (NY), Inc., a for-profit individual practice association model health maintenance organization licensed pursuant to the provisions of Article 44 of the Public Health Law.

Wherever the designation "Oxford" or "OHPI" appears herein, without qualification, it should be understood to indicate Oxford Health Plans, Inc., the parent and ultimate parent corporation of Oxford Health Plans (NY), Inc. and Oxford Health Insurance, Inc., respectively.

1. SCOPE OF EXAMINATION

The previous financial examination was conducted as of December 31, 1997. A supplemental report on examination dealing primarily with market conduct activities as of September 30, 2001 was filed on November 20, 2002. This examination covers the five-year period from January 1, 1998 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2002 in accordance with Statutory Accounting Principles, as adopted by the Department, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Business in force
Loss experience
Reinsurance
Accounts and records
Financial statements

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

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

2. DESCRIPTION OF COMPANY

OHI was incorporated in New York State on January 30, 1987 for the purpose of providing accident and health insurance products. It obtained its license from New York State to do the business of accident and health insurance on July 1, 1987, and it commenced operations on that date.

From its date of incorporation until December 31, 1997, OHI was a wholly-owned subsidiary of Oxford Health Plans, Inc., a Delaware corporation. On that date, Oxford transferred 100% ownership of OHI to Oxford Health Plans (NY), Inc.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of no less than thirteen members. As of the examination date, the board of directors was comprised of 13 members. The board meets four times during each calendar year. The directors as of December 31, 2002 were as follows:

Name and Residence	Principal Business Affiliation
Charles W. Berg Westport, CT	President and Chief Executive Officer Oxford Health Plans, Inc.
Steven H. Black Darien, CT	Chief Information Officer Oxford Health Plans, Inc.
Vicki L. Cleary Ridgefield, CT	Sr. Vice-President, Healthcare Services Oxford Health Plans, Inc.
Carmel Colica Norwalk, CT	Director, Legal and Regulatory Affairs Oxford Health Plans, Inc.
William J. Golden Northport, NY	Sr. Vice-President, Sales Oxford Health Plans, Inc.

Name and Residence	Principal Business Affiliation
Richard W. Haydon New Canaan, CT	Vice-President, Corporate Finance Oxford Health Plans, Inc.
Rebecca P. Madsen New York, NY	Director, Marketing Oxford Health Plans, Inc.
Karen W. Mulroe Easton, CT	Director, Securities Regulation Oxford Health Plans, Inc.
Alan M. Muney, M.D. Darien, CT	Chief Medical Officer Oxford Health Plans, Inc.
Norman C. Payson, M.D. Trumbull, CT	Retired
Daniele B. Ruskin New York, NY	Director, Government Programs Oxford Health Plans, Inc.
Scott M. Schwartz Newtown, CT	Vice President, Compliance Oxford Health Plans, Inc.
Kurt B. Thompson Easton, CT	Chief Financial Officer Oxford Health Plans, Inc.

The Jurat page of the 2002 Annual Statement listed Robert Natt as a director even though he was not elected until February 2003. Additionally, not listed on the Jurat page as a director was Norman Payson. Mr. Natt was also listed as a director in Schedule G of the Annual Statement, while Dr. Payson was again improperly excluded.

It is recommended that the Company properly report its directors in its financial statements and filings.

A review of the minutes of the attendance records at the Company's board of directors' meetings held during the period under examination revealed that one director, Winston Hayden, failed to attend any meetings after September 2001.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings

consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

A similar recommendation was made in the previous report on examination.

The officers of the Company as of December 31, 2002 were as follows:

Name	Title
Charles W. Berg	President
Carmel Colica	Secretary
Kurt B. Thompson	Treasurer

It should be noted that certain members of the board of directors and senior management of OHI are also members of the board of directors and senior management of OHPI, and other affiliated companies.

A review of Board of Directors meeting minutes revealed that subsequent to the examination date, on March 24, 2003, the Board of Directors unanimously passed the following resolution:

> **"RESOLVED**, that the Board approves and acknowledges that all future dividend transfers in excess of the statutorily required minimum capital and surplus amounts from the Company to its parent company are deemed approved without further action by the Board. "

Through this resolution, the board has taken away the responsibility for dividend approval from future board members. Even dividend payments that may not be legal under insurance law are dismissed from the need for approval. In addition to being a failure of its fiduciary responsibility, this amendment leaves future directors personally

liable for liabilities of the Company through New York Insurance Law 4207(b)(2), which states the following:

> "The directors of any such company who vote in favor of the declaration and distribution of any dividend in violation of this section shall, in addition to all other liabilities or penalties prescribed by law, be jointly and severally liable to the creditors, including policyholders creditors, of such company to the extent of the dividend so declared and paid, and every shareholder receiving any such dividend shall be liable to such creditors of such company to the extent of the dividend received by such shareholder."

It is recommended that the board withdraw its blanket approval from future dividends and approve each on an individual basis.

It is noted that the Company has complied with this recommendation.

B. Territory and Plan of Operation

At December 31, 1997, the Company was authorized to transact business in the states of Connecticut, Florida, New Hampshire, New Jersey, New York, and the Commonwealth of Pennsylvania. The Company is licensed to transact accident and health insurance as defined in paragraph 3(i) of Section 1113(a) of the New York Insurance Law.

OHI provides coverage to members of its Parent, a licensed HMO in the State of New York. OHI, in conjunction with OHPNY, maintains a hybrid health plan option, the "Freedom Plan". The Freedom Plan combines the benefits and coverage of the HMO with conventional health insurance provided by OHI. The Freedom enrollees pay a composite rate for their health coverage which is developed from the community rate for the HMO coverage and a separate rate for the indemnity (out-of-plan) coverage. Larger groups have a manual rate that is derived by blending in the group's own experience. The Liberty Plan is also a POS health care plan that is available to groups/members. This plan offers lower premiums than the Freedom Plan by allowing members to choose from a smaller network of in-network providers.

In addition, OHI writes its business directly, not through an HMO affiliate, in the states of New York, New Jersey, Pennsylvania and Connecticut.

The following schedule shows direct premiums written in the State of New York compared to the total of direct business written for the seven-year examination period:

Year	New York	Total United States	Percentage
1998	$251,824,150	489,114,060	51.5%
1999	227,926,753	462,604,765	49.3%
2000	258,618,961	504,200,291	51.3%
2001	282,315,987	585,371,347	48.2%
2002	433,948,966	879,420,876	49.3%

As of December 31, 2002, health care services were provided to 1,086,139 members. The following chart shows the member increase by number and percentage:

	1998	1999	2000	2001	2002
Members	$1,174,627	$1,067,049	965,540	1,002,171	1,086,139
Growth		(9.2)%	(9.5)%	3.8%	8.4%

C. Reinsurance

OHI does not maintain any stop-loss or insolvency reinsurance. Such coverage was discontinued effective January 1, 2002 with the approval of this Department and the Department of Health.

Until March 31, 2002, OHI maintained a reinsurance policy with Centre Insurance Company whereby the Reinsurer agreed to indemnify the Company for the cost of covered therapy services rendered during the term. The policy was terminated at that date.

OHI initiated a reinsurance policy with Ace American Insurance Co. on November 1, 2002. Under that agreement, the Reinsurer agrees to indemnify Oxford for orthopedic coverage in the event its cost of orthopedic coverage exceeds established levels up to a maximum of $30 million per year for the two year period covered by the policy.

Each of these contracts includes an insolvency clause that meets the requirements of Section 1308 of the New York Insurance Law.

OHI assumes Oxford Health Plan of New Jersey, Inc.'s (OHPNJ) portion of out of network Point of Service business. The Department has approved the agreement.

The following table shows the underwriting results for OHI's out-of-network reinsurance coverage of OHPNJ during the period January 1999 through December 2002. As seen, during 2002, the amounts of premiums OHI received were not sufficient to cover the related expenses:

	Premiums	Incurred Claims	Loss Ratios
2002	$ 12,666,039	$ 12,797,937	101.04%
2001	12,774,188	12,363,724	96.79%
2000	11,481,359	9,587,229	83.50%
1999	11,890,497	7,965,947	66.99%

Provision 1.6 of the reinsurance contract between OHPNJ and OHI states that:

> "OHPNJ will supply a lag table for out-of-network claims each month with dates of service beginning on the effective date of this Agreement to OHI as evidence of the amounts due from OHI. The Per Member Per Month [PMPM] rate paid to OHI by OHPNJ will be evaluated on a periodic but no less than annual basis."

The PMPM premium rate for this reinsurance contract has not been changed since the inception of the contract. Thus, OHI has failed to comply with its reinsurance contract provision.

It is recommended that OHI comply with the reinsurance agreement between OHI and OHPNJ and evaluate the premium rate on an annual basis.

Oxford Health Plans (NJ), Inc. (OHPNJ) overpaid OHI $654,336 during 2001 and 2002 for reinsurance premiums. Subsequent to the examination date, during 2003, an additional $1,276,918 was overpaid. This error was the result of including New Jersey residents with pure OHI coverage in OHPNJ's calculation of reinsurance premiums when only those members with dual OHPNJ/OHI coverage should have been included.

It is recommended that OHI repay the reinsurance premiums improperly received by it from OHPNJ.

It is noted that the Company has complied with this recommendation.

The Company does not have an established set of procedures for the underwriting and administration of reinsurance. Such guidelines help to ensure that, when reinsurance is needed, all appropriate measures and controls are taken prior to initiation.

It is recommended that the Company develop a manual for the underwriting and administration of re-insurance.

OHI recorded a conversion program with Celtic Insurance Company as reinsurance in Schedule S of the 2002 Annual Statement. The agreement is not a

reinsurance policy. In actuality, the program makes available to New York Oxford members who move out of state conversion coverage when those members lose their group coverage and have no other coverage available.

It is recommended that OHI discontinue reporting the Celtic Insurance agreement as reinsurance in Schedule S of its Annual Statement.

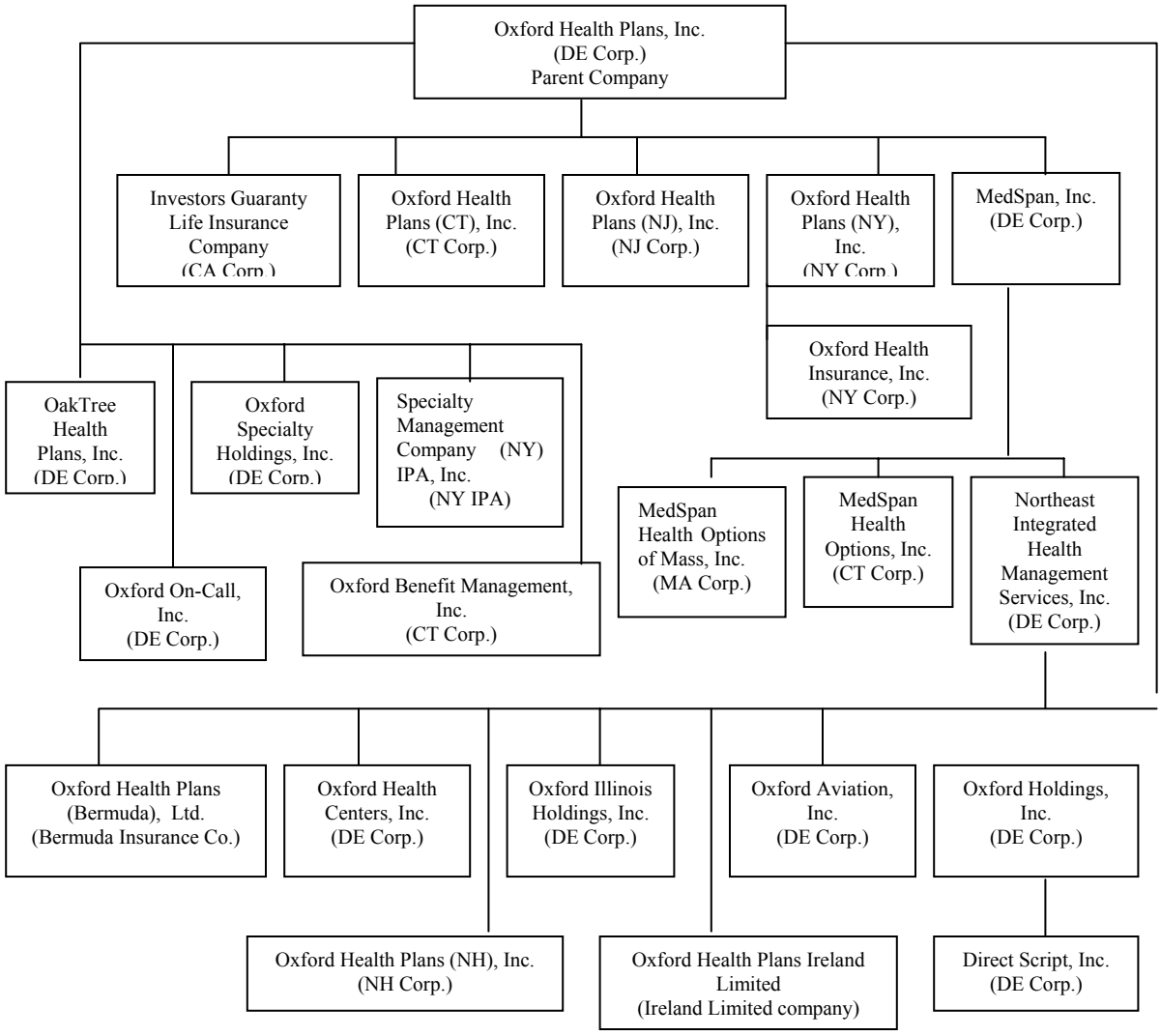
It is noted that the Company has complied with this recommendation.

D. Holding Company System

From its date of incorporation until December 31, 1997, OHI was a wholly-owned subsidiary of Oxford Health Plans, Inc. On that date, 100% ownership of OHI was transferred to OHPNY. This Department approved the transfer of ownership on this same date.

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

The following is the organizational chart of the holding company system as of December 31, 2002:



Effective November 1, 1997, the Company entered into an Administrative Services Agreement ("ASA") with Oxford under which it is charged a management fee for all administrative, selling, general and financial advisory services performed on its behalf. Such fees include an allocation, based primarily on membership, of actual expenses incurred by Oxford. This agreement was updated during 2003 and was approved by the Department on April 1, 2003.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written in 2002 to Surplus as regards policyholders:	5.5 to 1
Liabilities to Liquid Assets:	54.8%
Premiums in course of collection to Surplus as regards policyholders:	2.9%

These above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Claims	$2,373,463,249	80.9%
Claim adjustment expenses	87,507,848	3.0%
General administrative expenses	433,124,724	14.8%
Net underwriting gain	38,017,306	1.3%
Premium Revenue	2,932,113,127	100.0%

Note: The Annual Statements for the years 1998 through 2000 do not list claim adjustment expenses and general administrative expenses separately. This table utilizes an extrapolation of the 2001 and 2002 ratios for those figures.

F. Investment Activities

The Company's primary investments are in bonds backed by the US government. Its custodian is the Mellon Bank.

The Company exchanged a large number of its investments during 2002. The Company indicated this was due to the implementation of new investment guidelines.

Section 1404(a)(10)(B)(i) of the New York Insurance Law prohibits OHI from having more than 10% of its admitted assets invested in the securities of any one institution. Contrary to this limitation, as of December 31, 2002, OHI had 18.89% of its assets invested in one security.

It is recommended that the Company comply with New York Insurance Law §1404(a)(10)(B)(i) and not invest more that 10% of its admitted assets in the securities of any one institution.

It is noted that the Company has complied with this recommendation as of December 31, 2003.

New York Insurance Law 1411(a) states the following:

> "No domestic insurer shall make any loan or investment… unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan."

While the Company's investment guidelines were approved by the board of directors as required by the cited law, in two cases, investments were made in excess of those guidelines. This is so in that certain bonds had maturity dates beyond those permitted. When questioned, the Company maintained that the guidelines had not been written clearly and that the Company's intention had been to permit the specific investments involved.

It is recommended that the investment guidelines be rewritten to clearly specify those types of investments that are permitted.

One of the methods generally used to monitor the appropriateness of transactions is the separation of final approval from that of authorization. As of the examination date, the employee who had responsibility for signing off on security trades also had the power to give direction to the custodian.

It is recommended that the Company remove the responsibility for final approval of financial transactions from the responsibility of providing financial direction to the custodian.

G. Provider/TPA Arrangements - Risk-Sharing/ Fraud Prevention

Through Oxford, The Company maintains Third Party Administration (TPA) agreements with several organizations as follows:

- Triad Healthcare Inc.: Provides a network of chiropractors, utilization management and claims administration for chiropractic services. This is an arrangement whereby Oxford pays Triad a set capitation amount for each member enrolled for medical services plus an administrative fee for the network, utilization management and claims services. In turn, network chiropractic providers are paid on a fee-for-service basis.
- Orthonet: Provides a network of Physical Therapists in exchange for an administrative fee. In turn, network Physical Therapists are paid on a fee-for-service basis.
- Medco Health Solutions, Inc.: Administers the Company's pharmaceutical benefits program on a fee-for-service basis.
- New York Medical Imaging, Inc.: Administers the Company's radiology benefits on a capitated basis.

Review of the TPA agreements revealed that neither the OrthoNet nor the NYMI agreements establish specific standards for the TPA's as regards record retention.

New York Insurance Law Section 409 establishes the requirement that OHPNY submit a Fraud Prevention plan and maintain a Special Investigations Unit to aid in the prevention of fraud. This law does not make allowance for claim responsibilities to be delegated to TPA's and as such, it is Oxford's responsibility to adequately monitor the fraud prevention activities of its TPA in order to assure that fraud prevention requirements are met.

New York Insurance Law Section 409 establishes the requirement that the OHI submit a Fraud Prevention plan and maintain a Strategic Investigations Unit to aid in the prevention of fraud. This law does not make allowance for claim responsibilities delegated to TPA's and as such, it is Oxford's responsibility to adequately monitor the fraud prevention activities of its TPA in order to assure that the following fraud prevention requirements are met:

It is recommended that Oxford ensure that all of its Third Party Administration Agreements establish appropriate specific standards for record retention. It is further recommended that Oxford adequately monitor its TPAs in order to assure that fraud prevention requirements are met.

The Triad agreement establishes the requirement that, in the event that Oxford issues a corrective action request, that Triad submit a corrective action plan within 15 days. Oxford submitted such a request after an August 2003 visit. As of this report date, no such corrective action plan has been submitted.

It is recommended that the Company require its Third Party Administrator Triad to submit Corrective Action Plans within the time period established within their contract.

H. Accounts and Records

As noted elsewhere within this report, the Company has an Administrative Services Agreement with its ultimate parent, OHPI. As a result, in certain instances, revenues and expenses that were received or paid by the Parent or an affiliate are allocated to the Company after having been received or paid by the Parent or an affiliate. Once allocated to the Company, the costs are allocated to the appropriate line of business. Other charges are billed directly to the Company.

A review was performed on two samples of allocations in order to ascertain their reasonableness. In one sample, expenses charged to medical expenses were reviewed. Results of that testing revealed that claim recoveries received from a provider as a result of Oxford's fraud investigation were allocated to the Commercial Large Group line of business when they should have been allocated to all lines of business. When this matter was brought to the attention of management, the Company indicated that steps were being taken to allocate these revenues properly.

Because these reductions in medical expenses are used to help establish rates for the various groups, improper allocations may result in some group members subsidizing the rates for other group members. For this reason, it is critical that such allocations be made accurately.

It is recommended that all recoveries of medical expenses be applied to the appropriate lines of business.

The other sample of expenses that were examined consisted of administrative expenses. For these expenses, it was also noted that expenses were not being properly allocated among the various affiliates of the holding company. Examples include the following:

- Certain Provider Credentialing charges were applied to the two New York entities when such charges included providers in other states.

- Certain penalties and fines were allocated to all affiliates when such penalties could be traced to specific affiliates.

These allocations are contrary to the instructions provided within the NAIC Annual Statement. Additionally, they are not in compliance with New York Insurance Law Section 1505, which states the following:

> "Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:
>
> (1) the terms shall be fair and equitable
> (2) charges or fees for services performed shall be reasonable; and
> (3) expenses incurred and payments received shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied."

It is recommended that the Company comply with New York Insurance Law Section 1505 and properly allocate all administrative expenses.

It is noted that the previous report on examination contained a similar recommendation.

The Company made several reporting errors in its 2002 Annual Statement as follows:

- Expenses were not properly allocated within Exhibit 3 of the Underwriting and Investment Exhibit. Examples of these misallocations include the following:
  - Investment expenses, although reported elsewhere in the Annual Statement exhibit, were not reported on the Underwriting and Investment Exhibit Part 3;

  - Utilization review expenses are allocated to General Administrative Expenses instead of to claim adjustment expenses* and
  - Rather than establish the appropriate allocation between claim adjustment expenses and administrative expenses, the Company applied a set percent in each expense category.
  - Interest on claims paid under New York's Prompt Pay Law was listed as a General Administration Expenses when such expenses should be listed as Claims Adjustment Expense.
- $4.8 million of premium tax liabilities were misclassified as long-term liabilities.
- Balances for Line 1.2, 2.2, and 4.2 of Underwriting and Investment Exhibit Part 2A - Claims Liability End of Current Year were recorded incorrectly.
- Exhibit 4 of the Annual Statement did not reconcile properly in that the Company failed to separate the admitted receivables from the non-admitted portion. Additionally, the Exhibit showed no receivables between 31 and 90 days of age while there were receivables within that period.

  * Note: Effective 1/1/03 per Statutory Accounting Principle #85

It is recommended that the Company properly classify accounts within its financial statements.

I. Medco Strategic Alliance Agreement

On September 7, 2001, Oxford Health Plans, Inc. (OHPI) signed an Alliance Agreement (the "Agreement") with Merck-Medco Managed Care, L.L.C. ("Merck"). When Merck spun its subsidiary Medco Health Solutions Inc. ("Medco") off as a separate entity in 2003, Merck's rights and responsibilities under this agreement were also transferred to Medco. Medco also serves as the Plan's Pharmaceutical Benefits Manager ("PBM") under a separate agreement also executed on September 7, 2001.

The Agreement stipulates that OHPI was to receive $82.9 million in consideration of services, of which $50 million was allocated to ten years worth of Historical and Current claims information to be provided by OHPI.

The Department takes the position that in order to allow of the fair and equitable distribution of the payment proceeds based upon the use of data collected from claims submitted by policyholders its New York subsidiaries, such proceeds should be shared with subsidiaries Oxford Health Insurance, Inc. and Oxford Health Plans (NY) Inc.

It is recommended that the OHPI provide an appropriate share of its revenue from the sale of claim information to the Medco be returned to the New York policyholders.

While not adopting the Department's position, OHPI has agreed to resolve the matter in a manner consistent with the Department's recommendation. The terms of the resolution will be incorporated in a separate Stipulation.

The Department also has questioned whether Oxford's sharing of claims data under the Agreement with Medco complies with Privacy Rules established under the federal Health Information Portability and Accountability Act of 1996 (HIPAA), which were effective on April 4, 2003.

Oxford's position, which is based on the advice of its outside counsel, is that distribution of the claims data in its existing format is acceptable as a "limited data set" under the Privacy Rules. HIPAA allows covered entities to disclose protected health information in the form of a limited data set, provided that such disclosure is for the purpose of research, health care operations, or public health activities. Oxford further notes that, as part of the Agreement, Medco has signed a Business Associate Agreement that mandates Medco maintain the confidentiality of the claims information provided under the Agreement.

The Department continues to question whether the shared information has been adequately de-identified by Oxford, and whether Medco's use of the data qualifies as

research, health care operations, or public health activities as permitted under the HIPAA Privacy Rule for a "limited data set". The Department has also questioned whether the data provided under the terms of the Agreement, which contains extensive medical information, and which has been de-identified on a one-to-one basis (whereby claim numbers were replaced with a secondary set of numbers that are unique), can be compromised given that Medco's responsibilities as PBM give it access to the original claims information for any members purchasing medication under their Oxford contracts. In response Oxford again cited contractual provisions that require Medco to maintain the confidentiality of the claims information provided by OHPI under the Agreement.

As a result, the question of whether Oxford is in compliance with the Privacy Rules has been referred to the U.S. Department of Health and Human Services for their review.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and capital and surplus as determined by this examination as of December 31, 2002. This statement is the same as the balance sheet filed by the Company.

Assets	Plan	Examination	Difference
Bonds	$ 239,619,660	$ 239,619,660	$
Cash and short-term investments	85,749,056	85,749,056	
Subtotals, cash and invested assets	325,368,716	325,368,716	
Accident and health premiums due and unpaid	4,671,477	4,671,477	
Health care receivables	736,534	736,534	
Investment income due and accrued	2,776,005	2,776,005	
Amounts due from parent, subsidiaries and affiliates	5,973,217	5,973,217	
Federal and foreign income tax recoverable and interest thereon	3,200,500	3,200,500	
Other nonadmitted assets			
Total assets	$ 342,726,449	$ 342,726,449	$
Liabilities			
Claims unpaid	$ 136,949,362	$ 136,949,362	$
Unpaid claims adjustment expenses	2,993,483	2,993,483	
Premiums received in advance	24,738,587	24,738,587	
General expenses due or accrued	496,564	496,564	
Federal and foreign income tax payable and interest thereon	4,186,999	4,186,999	
Amounts due to parent, subsidiaries and affiliates	2,970,837	2,970,837	
Payable for securities	1,034,053	1,034,053	
Aggregate write-ins for other liabilities	4,816,922	4,816,922	
Total liabilities	$ 178,186,807	$ 178,186,807	$
Capital and surplus			
Common capital stock	1,000,000	1,000,000	
Gross paid in and contributed surplus	44,610,000	44,610,000	
Aggregate write-ins for other than special surplus funds	210,000	210,000	
Unassigned funds (surplus)	118,719,642	118,719,642	
Total capital and surplus	$ 164,539,642	$ 164,539,642	$
Total liabilities, capital and surplus	$ 342,726,449	$ 342,726,449	$

The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of the Company through 2001. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses

Capital and Surplus increased $30,995,856 during the five-year examination period, (January 1, 1998 through December 31, 2002) detailed as follows:

Income		
Net premium income	$ 2,932,113,127	
Total revenues		$ 2,932,113,127
Expenses		
Hospital/medical benefits	$ 1,977,892,307	
Other professional services	472,826	
Outside referrals	4,857,347	
Emergency room and out-of-area	164,875,862	
Prescription drugs	116,789,979	
Aggregate write-ins for other medical and hospital	96,287,279	
Subtotal	2,361,175,600	
Net reinsurance recoveries	(12,287,649)	
Total medical and hospital	2,373,463,249	
Claims adjustment expenses	87,507,848	
General administrative expenses (less)	433,124,725	
Total underwriting deductions		2,894,095,822
Net underwriting gain		$ 38,017,305
Net investment income earned		64,782,530
Net realized capital gains		7,611,471
Net gain from agents' or premium balances charged off		1,494,500
Aggregate write-ins for other income or expenses		2,147,785
Net income before federal income taxes		114,053,591
Federal and foreign income taxes incurred		47,983,000
Net income		$ 66,115,591

Capital and surplus as of December 31, 1997			$ 133,543,786
	Gains	Losses	
Net income	$ 66,115,591	$	
Change in net deferred income tax	1,108,500		
Change in nonadmitted assets	2,396,091		
Cumulative effect of changes in accounting principles	2,092,000		
Paid in (surplus adjustments)	44,460,000		
Dividends to stockholders		(86,288,600)	
Other changes	$ 1,112,274		
	$ 117,284,456	$ (86,288,600)	
Net change in capital and surplus			30,995,856
Capital and surplus per examination as of December 31, 2002			$ 164,539,642

4. CLAIMS UNPAID

The examination liability of $136,949,362 is the same as the amount reported by the Company as of December 31, 2002.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and in its filed annual statements.

5. TREATMENT OF POLICYHOLDERS AND CLAIMANTS

A supplemental Report on Examination as of September 30, 2001, which detailed a review of the manner in which OHI conducted its business practices and fulfilled its contractual obligations to its policyholders and claimants was filed November 20, 2002.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that directors who are unable or unwilling to attend meetings consistently should resign or be replaced. This report contains a similar recommendation.	7
ii.	It is recommended that the Company continue its efforts to fill the vacancies of its Board so that it complies with Section 1201(a)(5)(v) of the New York Insurance Law and its charter and by-laws. The Company has complied with this recommendation.	8
B.	Conduct of Examination	
i.	It is recommended that OHI continue its efforts to comply with Sections 310(a)(2) and (a)(3) of the New York Insurance Law and provide requested information in a timely and complete manner. The Company has complied with this recommendation.	10
ii.	It is recommended that more efficient procedures in gathering information be put in place to expedite future examinations. The Company has complied with this recommendation.	10
C.	Holding Company System	
i.	It is recommended that the Company report transactions regarding its holding company system properly in its filings with this Department and that documentation be maintained to support these transactions. The Company has complied with this recommendation.	18

ITEM		PAGE NO.
	Except in one instance as discussed within this report, the Company has complied with this recommendation.	
E.	Reinsurance	
i.	It is recommended that the Company verify that its new reinsurance agreement includes the above referenced wording, as well as any other provisions mandated by this Department.	29
	The Company has complied with this recommendation.	
F.	Abandoned Property Law	
i.	It is again recommended that the Company make the required filings under the captioned Law.	30
	The Company has complied with this recommendation.	
G.	Audited Financial Statements	
i.	It is recommended that a separate management letter be issued for OHI, and that these letters be reviewed by its board members and any appropriate committees	30
	The Company has complied with this recommendation.	
H.	Disaster Recovery Plan	
	It is recommended that OHI implement a plan for the conduct of business and the continuity of management in the event of a catastrophic fire or other disaster. Consideration should also be given to the adoption of emergency by-laws.	32
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
I.	Record Keeping and Reporting	
i.	It is recommended that OHI maintain sufficiently detailed internal records which can be used to support all the information reported in its quarterly and annual statements filed with this Department The Company has complied with this recommendation.	36
ii.	It is recommended that Oxford implement a general ledger system that would allow information on a subsidiary level basis to be more easily determined and documented. The Company has complied with this recommendation.	36
J.	Premiums Receivable	
i.	It is recommended that the Company develop the capacity to generate additional reports, such as an improved premium aging report, to assist verification by its management, external auditors, and this Department, of the premiums receivable ledger asset, and to enhance the Company's collection procedures. Therefore, it is recommended that the Company's independent auditors specifically report on this matter as part of its engagement for the year-end 1998 audit. The Company has complied with this recommendation.	42
ii.	It is recommended that the Company better document the adjustments to its premiums receivable account so that they can be verified, tested for reasonableness, and used by management to analyze the accuracy of its accounts and determine the adequacy of its collection practices. The Company has complied with this recommendation.	42

ITEM		PAGE NO.
iii.	It is recommended that the Company delete groups/policyholders from its billing system upon termination of the policy to enhance the accuracy of its premiums receivable asset. The Company has complied with this recommendation.	42
iv.	It is recommended that the Company calculate its overdue premiums in compliance with Section 1301(a)(11) of the New York Insurance Law and the rules set forth in the unnumbered Department Circular Letter dated November 29, 1978. The Company has complied with this recommendation.	43
v.	It is recommended that the Company comply with the *NAIC Accounting Practices and Procedures Manual for Life and Accident and Health* by calculating its premiums more than 90 days past due as "not-admitted assets" and showing premiums due and unpaid as "ledger assets" rather than "non-ledger assets" in its filed annual and quarterly statements. The Company has complied with this recommendation.	43
K.	Claims Payable	
i.	It is recommended that the Company separate its "negative liabilities" and "non-claim liabilities" from its reserve for "reported claims in process of adjustment" and its "incurred but not reported" ("IBNR") claims" The Company has complied with this recommendation.	53
ii.	It is recommended that the Company audit the information provided by its pharmacy administrator, PCS. The Company has since replaced its pharmacy administrator.	53

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that the Company properly report its directors in its financial statements and filings.	4
ii.	Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. A similar recommendation was made in the previous report on examination.	4
iii.	It is recommended that the board withdraw its blanket approval from future dividends and approve each on an individual basis. It is noted that the Company has complied with this recommendation.	6
B.	Reinsurance	
i.	It is recommended that OHI comply with the reinsurance agreement between OHI and OHPNJ and evaluate the premium rate on an annual basis.	9
ii.	It is recommended that OHI repay the reinsurance premiums improperly received by it from OHPNJ. It is noted that the Company has complied with this recommendation.	9
iii.	It is recommended that the Company develop a manual for the underwriting and administration of re-insurance.	9

Respectfully submitted,

_____

Bruce E. Borofsky,
Associate Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

Bruce E. Borofsky, being duly sworn deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____

Bruce E. Borofsky

Subscribed and sworn to before me
this _____ of _____ 2004.

Appointment No. *22077*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ***GREGORY V. SERIO***, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Bruce Borofsky

as a proper person to examine into the affairs of the

Oxford Health Insurance, Inc.

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

Company

with such information as he shall deem requisite.

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

this *3rd* day of *July 2003*

Gregory V. Serio
Superintendent of Insurance