# REPORT ON EXAMINATION

# OF

# MEDAMERICA INSURANCE COMPANY OF NEW YORK

# AS OF

# DECEMBER 31, 2013

| | |
|---|---|
| **DATE OF REPORT** | **OCTOBER 16, 2017** |
| **EXAMINERS** | **JERRY EHLERS, CFE**<br>**WAI WONG, AFE** |

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

October 16, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 31058, dated September 25, 2013 and Appointment Number 31075, dated November 13, 2013, attached hereto, we have made an examination into the condition and affairs of MedAmerica Insurance Company of New York, an accident and health insurer licensed pursuant to the provisions of Article 42 of the New York Insurance Law, as of December 31, 2013, and submit the following report thereon.

The examination was conducted at the administrative office of MedAmerica Insurance Company of New York located at 165 Court Street, Rochester, New York.

Wherever the designations "MANY" or the "Company" appear herein, without qualification, they should be understood to indicate MedAmerica Insurance Company of New York.

MedAmerica Insurance Company of New York is a wholly-owned subsidiary of MedAmerica, Inc. (“MAI”), MANY’s immediate parent. MedAmerica, Inc. is also the parent of MedAmerica Insurance Company (“MAPA”) which in turn is the parent of MedAmerica Insurance Company of Florida (“MAFL”). MAI is a wholly-owned subsidiary of Excellus Health Plan, Inc. (“EHP”). EHP is a not-for-profit corporation, and is a subsidiary of Lifetime Healthcare, Inc. (“Lifetime”) by virtue of Lifetime being EHP’s sole member

Wherever the designations the “Plan”, “EHP”, or “Excellus” appear herein, without qualification, they should be understood to indicate Excellus Health Plan, Inc., whose sole member is Lifetime Healthcare, Inc.

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

Wherever the designation the “Companies” appears herein, without qualification, it should be understood to indicate Excellus Health Plan, Inc., MedAmerica Insurance Company, MedAmerica Insurance Company of New York, and MedAmerica Insurance Company of Florida, collectively.

Wherever the term “MedAmerica Companies” appears herein, without qualification, it should be understood to indicate MedAmerica Insurance Company, MedAmerica Insurance Company of New York, and MedAmerica Insurance Company of Florida, collectively.

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

A concurrent examination was made of EHP, the parent health service corporation, licensed pursuant to the provisions of Article 43 of the New York Insurance Law. A separate report thereon has been submitted.

## 1. SCOPE OF THE EXAMINATION

The previous examination of the Company was conducted as of December 31, 2009. This examination of the Company was a combined (financial and market conduct) examination and covered the period from January 1, 2010 through December 31, 2013. The financial component of the examination was conducted as a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2014 Edition* (the "Handbook"). 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, 2013 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 of the Company's operations and utilized that evaluation in formulating the nature and extent of the examination. The examiners planned and performed the examination to evaluate the Company's current financial condition, as well as identify prospective risks that may threaten the future solvency of MANY.

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 Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Company'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 examination also evaluated the Company's critical risk categories in accordance with the NAIC's ten critical risk categories. These categories are as follows:

- Valuation/Impairment of Complex or Subjectively Valued Invested Assets
- Liquidity Considerations
- Appropriateness of Investment Portfolio and Strategy
- Appropriateness/Adequacy of Reinsurance Program
- Reinsurance Reporting and Collectability
- Underwriting and Pricing Strategy/Quality
- Reserve Data
- Reserve Adequacy
- Related Party/Holding Company Considerations
- Capital Management

The Company was audited annually, for the years 2010 through 2013, by the accounting firm of Deloitte & Touche, LLP ("D&T"). The Company 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. A review was also made of Lifetime Healthcare, Inc.'s Internal Audit function and Enterprise Risk Management program, as they relate to the Company.

During this examination, an information systems review was made of the Company's computer systems and operations 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.

## 2. DESCRIPTION OF THE COMPANY

The Company was incorporated in New York State on November 2, 1987, under the name Finger Lakes Long Term Care Insurance Company, as a stock accident and health insurance company, pursuant to Section 1201 of the New York Insurance Law. On that same date, the Company's declaration of intention and charter was approved by the Attorney General of the State of New York and filed with the Department. On November 13, 1987, the Company was licensed by the Department to do the business of accident and health insurance, pursuant to Section 1113(a)(3) of the New York Insurance Law.

The Company was formed by two corporations, Rochester Hospital Service Corporation and Genesee Valley Medical Care, Inc., for the purpose of underwriting long term care insurance. Such coverage provides for health care at nursing homes and private residences.

As part of its formation, on November 2, 1987, the Company issued 1,000 shares of $300 par value per share common stock, with 667 shares issued to the Rochester Hospital Services Corporation, and 333 shares issued to Genesee Valley Medical Care, Inc., for a sale price of $600 per share; resulting in consideration of $600,000. Of this amount, $300,000 represented paid-in capital and $300,000 represented gross paid-in and contributed surplus. On January 17, 1990, the Company's board of directors authorized a charter amendment, increasing the Company's paid-in capital from $300,000 to $1,800,000. The amendment increased the number of shares (par value $300) the Company was authorized to issue from 1,000, to 6,000 shares. On January 17, 1990, the sale of 3,334 shares to Rochester Hospital Service Corporation, and 1,666 shares to Genesee Valley Medical Care, Inc. was completed.

The Rochester Hospital Service Corporation, which changed its name to Finger Lakes Health Insurance Company, Inc., and Genesee Valley Medical Care, Inc., which changed its name to Finger Lakes Medical Insurance Company, Inc., on December 31, 1998, merged with each other and other corporations to become Excellus Health Plan, Inc. (EHP). As a result, EHP directly owned all of the outstanding shares of the Company.

On January 11, 2000, MedAmerica, Inc. (formerly Excellus Long-Term Care Holding Company) was formed under the New York Business Corporation Law, with EHP as its sole shareholder. On April 24, 2000, 6,000 shares of the former Finger Lakes Long Term Care Insurance Company which, on December 18, 2000, changed its name to MedAmerica Insurance Company of New York were issued to MedAmerica, Inc. Additionally, on May 12, 2000, 10,000 shares of MedAmerica, Inc. were issued to Excellus Health Plan, Inc.

Products offered by MANY during the examination period included FlexCare, a flexible reimbursement long term care product, Transitions, a short term care recovery product, and New York State Public Employee and Retiree Long Term Care Insurance Plan (NYPERL), a New York partnership and non-partnership product marketed to New York State employees. These products continued to be marketed by MANY until February 15, 2016 when MANY discontinued writing any new business. MANY however did continue to accept applications for new policies/certificates under its Insurance Participation Agreements with the New York State Partnership for Long Term Care for a brief period of time. Simplicity, a long term care product for care in nursing facilities, adult care centers, hospices, and home care was offered during the examination period but discontinued in 2013. The group Premier product was sold during the examination period but was discontinued in 2010.

MedAmerica Insurance Company of New York, MedAmerica Insurance Company, and MedAmerica Insurance Company of Florida operate under common management and administration located in Rochester, New York. MANY is licensed to issue long term care policies in the state of New York, while its affiliates, MedAmerica Insurance Company ("MAPA"), a Pennsylvania domestic insurance company, was licensed to write long term care insurance in 48 states and the District of Columbia, and MedAmerica Insurance Company of Florida ("MAFL"), is licensed to write long term care insurance only in the state of Florida.

On December 15, 2007, MAPA surrendered its Florida license to the Florida Office of Insurance Regulation as a result of the formation of MAFL.

The Company's suffered a series of net losses that negatively impacted its risk-based capital position and led EHP to provide numerous surplus infusions to the Company.

A breakdown of the surplus paid-in and changes in capital and surplus since the previous examination of MANY is as follows:

| Year | Common Shares Issued | Par Value | Common Capital Stock at year end | Gross Paid-in and Contributed Surplus at year end | Capital and Contributed Surplus at year end | Capital and Surplus Contributions during year |
|---|---|---|---|---|---|---|
| 2010 | 6,000 | $300 | $1,800,000 | $92,067,245 | $93,867,245 | $20,000,000 |
| 2011 | 6,000 | 300 | 1,800,000 | 99,367,245 | 101,167,245 | 7,300,000 |
| 2012 | 6,000 | 300 | 1,800,000 | 104,367,245 | 106,167,245 | 5,000,000 |
| 2013 | 6,000 | 300 | 1,800,000 | 104,367,245 | 106,167,245 | 0 |

## A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is to be vested in a board of directors consisting of eighteen members. As of December 31, 2013, the board of directors was comprised of eighteen members as follows:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Hermes L. Ames, III<br>Menards, New York | Retired |
| Jennifer C. Balbach<br>Buffalo, New York | Partner<br>Summer Street Capital Partners, LLC. |
| Christopher C. Booth, Esq.<br>Pittsford, New York | President and Chief Executive Officer,<br>Excellus Health Plan, Inc. |
| Natalie L. Brown<br>Barneveld, New York | Executive Director,<br>YWCA Mohawk Valley |
| Randall L. Clark *<br>(Chairman)<br>Vero Beach, Florida | Chairman and President,<br>Dunn Tire |

| Name and Residence | Principal Business Affiliation |
|---|---|
| John G. Doyle, Jr.<br>Ontario, New York | President and Chief Executive Officer,<br>Doyle Security Systems, Inc. |
| Marianne W. Gaige<br>Holland Patent, New York | President and Chief Executive Officer,<br>Cathedral Corporation |
| William H. Goodrich<br>Fairport, NewYork | Chief Executive Officer,<br>LeChase Construction Services, LLC |
| Austin T. Hildebrandt<br>(Vice Chairman)<br>Webster, New York | Special Assistant to President,<br>Hillside Family of Agencies |
| Thomas Y. Hobart, Jr.<br>East Amherst, New York | Retired |
| Dennis P. Kessler, Esq.<br>Rochester, New York | Owner and Co-founder,<br>Kessler Restaurants, Inc. |
| Joseph F. Kurnath, M.D.<br>Rochester, New York | Physician |
| Patrick A. Mannion<br>Fayetteville, New York | Vice Chairman,<br>Columbian Financial Group |
| Alfred D. Matt<br>Clinton, New York | President and Chief Executive Officer,<br>FX Matt Brewing Co., Inc. |
| Colleen E. O’Leary, M.D.<br>Manlius, New York | Professor,<br>SUNY Upstate Medical University |
| Thomas E. Rattmann**<br>Vestal, New York | Chairman and Chief Executive Officer,<br>Columbian Financial Group |
| Charles H. Stuart<br>Rochester, New York | Financial Advisor,<br>Cobblestone Capital Advisors |
| George F. T. Yancey, Jr.<br>Rochester, New York | Managing Director,<br>DeltaPoint Capital Management, LLC |

*Note: On March 20, 2014, Randall Clark retired as Chairman of the Board and was replaced by Thomas Hildebrant.

**Note: On March 20, 2014, Thomas Rattmann replaced Thomas Hildebrant as Vice Chairman of the Board.

The board met four times during each calendar year of the examination period.

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

The officers of the Company as of December 31, 2013, were as follows:

| Name | Title |
|---|---|
| William L. Naylon | President |
| Dorothy A. Coleman | Treasurer and Chief Financial Officer |
| Stephen R. Sloan | Secretary |
| Cheryl L. Bush | Senior Vice President |

Article III, Section 1, of the Company's by-laws states:

> "The governing board of the Corporation shall be a Board of Directors charged with the general management of the affairs, property, and business of the Corporation. The board of directors shall consist of eighteen (18) members. One of the eighteen (18) members shall be the Chief Executive Officer of the Corporation. The term "entire board of directors" shall mean the total number of directors that the Corporation would have if there were no vacancies."

The total membership of the Company's board of directors was less than eighteen during the period March 25, 2010 to June 28, 2012 and was not in compliance with Article III, Section 1 of its by-laws.

It is recommended that MANY maintain eighteen (18) members on its board of directors, as required by Article III, Section 1 of its by-laws and replace any unplanned vacancies within a reasonable period of time.

The board's membership was re-established at eighteen members on June 28, 2012 and continued at such number of directors through December 31, 2013.

The Company's Audit Committee charter charges such committee with the responsibility of "reviewing the performance" of the Chief Audit Executive ("CAE"); however, the charge is not specific with respect to involvement in the termination of the CAE.

It is recommended that the Company include within its Audit Committee charter wording that the Audit Committee be empowered as the decision making entity with regard to the potential termination of the Chief Audit Executive.

Internal Audit Department

Excellus has an established Internal Audit Department (IAD) function, independent of management, which reports to the Audit Committee of its board of directors (the "Audit Committee" or "AC"). Such IAD also reviews the operations of MedAmerica Insurance Company of New York. In addition, the IAD addresses the requirements of Insurance Regulation No. 118 (11 NYCRR 89), New York's version of the NAIC's Model Audit Rule, and assists management with any insurance regulatory reviews.

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

Article III, Section 1, of the Company's by-laws states in part:

> "The governing board of the Corporation shall be a Board of Directors charged with the general management of the affairs, property, and business of the Corporation…"

Full reports from the Internal Audit Department containing the significant findings and recommendations along with priority rankings of the findings relative to MedAmerica Insurance Company of New York were not consistently provided to the Audit Committee of the board of directors of MANY, which would allow the board of directors of MANY to fulfill its duties and responsibilities under MANY's by-laws.

It is recommended that the Plan's Internal Audit Department, on behalf of the Company, provide the Company's audit committee with a more comprehensive report of its audit results relative to significant findings, along with priority rankings of the findings, which will allow MANY's audit committee and board of directors to fulfill their duties and responsibilities.

Enterprise Risk Management

MANY is a domestic accident and health insurer organized and licensed pursuant to Article 42 of the New York Insurance Law but is not required to be compliant with Insurance Regulation No. 118, the Department's version of the NAIC Model Audit Rule. However, Excellus Health Plan, Inc. is required to be compliant with Insurance Regulation No. 118. In this regard, MANY's controls were identified by Lifetime Healthcare, Inc.'s ERM process and testing was managed and monitored by the Excellus Internal Audit Department. Shared services with Lifetime HealthCare, Inc. and the MedAmerica Companies were managed by Excellus, and included the information technology, risk management, investments, accounting and internal audit functions.

Lifetime HealthCare Inc.'s Enterprise Risk Management ("ERM") framework, conducted on a Lifetime Healthcare, Inc. holding company basis, is evolving to proactively address and mitigate risks, including prospective business risks. Excellus management is actively monitoring changes as a result of the implementation of the Federal Health Care Reform Act and other proposed regulatory changes at both the federal and state levels of government.

Exhibit M of the Handbook (*Understanding the Corporate Governance Structure*) was utilized by the examiners as guidance for assessing corporate governance.

B. Territory and Plan of Operation

At December 31, 2013, the Company was authorized to transact the kinds of business specified in Section 1113(a)(3) of the New York Insurance Law (accident and health). The Company is licensed to do business in the State of New York only. During the examination period the Company's sole line of business was long term care insurance.

The Company solicited business as a direct writer for a majority of the business produced during the period under examination. MANY also entered into agreements with agents and brokers for the solicitation of business. The Company conducted all business from its home office in Rochester, New York.

Based upon the lines of business for which the Company is licensed, the Company's current capital structure, and pursuant to the requirements of Articles 13 and 42 of the New York Insurance Law, the Company is required to maintain minimum capital in the amount of $300,000.

As noted earlier in this report on examination, several surplus infusions were made by EHP during the examination period. Most of these surplus infusions were for the purpose of maintaining MANY's surplus at a level in excess of its minimum risk-based capital amount, prescribed by Section 1322 of the New York Insurance Law as below.

| Year | Surplus Infusion | Total Adjusted Capital | Authorized Control Level | Risk Based Capital Ratio |
|---|---|---|---|---|
| 2010 | $20,000,000 | $29,239,663 | $5,514,865 | 5.30 to 1 |
| 2011 | $ 7,300,000 | $25,722,022 | $6,092,920 | 4.22 to 1 |
| 2012 | $ 5,000,000 | $18,703,224 | $6,428,185 | 2.91 to 1 |
| 2013 | 0 | $28,238,202 | $6,790,863 | 4.16 to 1 |

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

| | Net Admitted Assets | Capital and Surplus | Direct Premiums Written | Net Income (Loss) |
|---|---|---|---|---|
| 2010 | $385,116,665 | $28,003,907 | $40,993,948 | $(10,107,783) |
| 2011 | 432,061,775 | 24,341,087 | 43,015,735 | (7,433,852) |
| 2012 | 482,050,686 | 17,041,797 | 43,232,489 | (8,710,570) |
| 2013 | 535,365,775 | 26,436,856 | 45,386,734 | (1,887,640) |

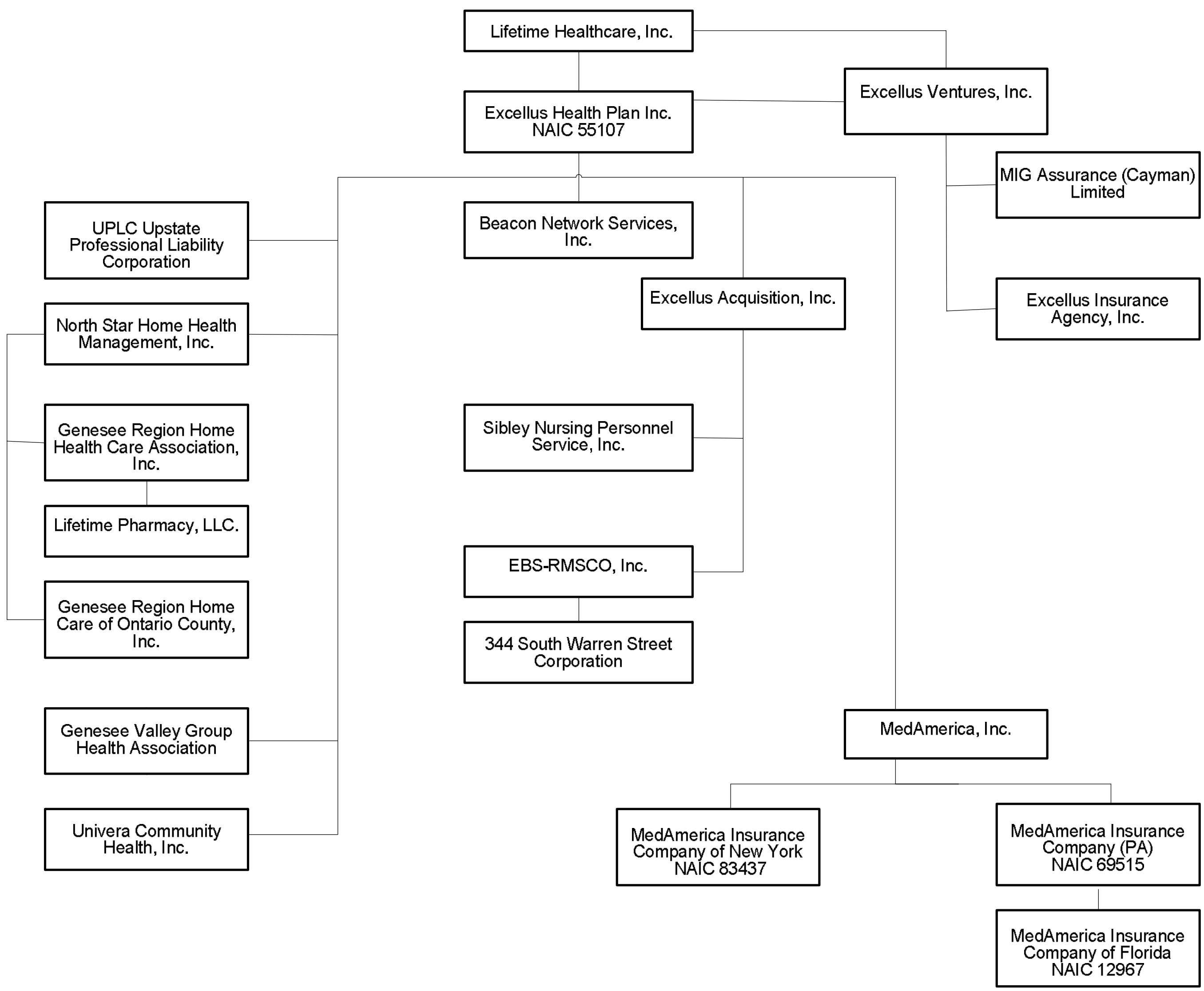
The Company's net losses were reduced during 2013, primarily by means of the termination of certain products as outlined earlier in this report on examination.

As of December 31, 2013, long term care coverage was provided to 23,664 covered lives.

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Covered Lives | 22,407 | 22,527 | 22,730 | 23,664 |
| Change % | | 0.5% | 0.9% | 4.1% |

C. Holding Company System

The following chart depicts the Company’s holding company system as of December 31, 2013:



As a member of a holding company system, MANY is required to file registration statements pursuant to Article 15 of the New York Insurance Law and Insurance 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.

As of the examination date, MANY maintained agreements with affiliated entities for administrative services, capital support, and tax sharing. Inter-company agreements and amendments for MANY that were in place as of December 31, 2013 include the following:

- MANY has an Administrative Services Agreement with Excellus wherein executive management, staffing of direct services, desktop and network support, human resource services, purchasing services, payroll services, accounts payable services, telecommunication services, office space, and cash flow and investment management services are provided to MANY by Excellus. In addition, EHP provides reserve calculation, premium billing, collecting and reporting, and document services to MANY. The agreement was originally dated January 1, 2002 with a Department “non-objection” letter issued dated May 4, 2004. The first amendment was effective December 5, 2007 with a Department non-objection letter issued dated October 3, 2007. The second amendment was effective July 1, 2009 with a Department “non-objection” letter issued September 8, 2009. The third amendment was effective May 1, 2010 with a Department “non-objection” letter issued dated March 15, 2010. The fourth amendment was effective December 1, 2010 with a Department “non-objection” letter issued December 14, 2010.

- MANY, MAPA, MAFL and EHP entered into a Capital Support Agreement (“CSA”) pursuant to which EHP agreed to make an investment in one or more of the MedAmerica Companies in the event a certain trigger event occurs as defined in the CSA. Such investment could involve one or more companies domiciled outside of New York. The Department requested that EHP provide an assurance that any such investment will be subject to the Department’s prior approval and the quantitative limits set forth in Section 1705 of the New York Insurance Law.

  Excellus, at the time of the prior examination, had guarantees in place with two rating agencies, A.M. Best and Standard & Poor’s, relative to the guaranty of payment of the policyholder obligations of the MedAmerica Companies. The Department subsequently indicated in a letter dated November 6, 2009 to Excellus 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 violation of Section 1102(a) of the New York Insurance Law. 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.

As of July 1, 2010, Excellus, by means of the aforementioned CSA, agreed to take any and all action necessary to ensure that MANY, MAFL, and MAPA each have sufficient liquid assets for the timely payment of amounts due on policies issued by such long term care insurance companies on or after that date. This requires that, for each calendar year after December 31, 2010, the cash and invested assets of each long term care insurance company, shown on the annual statement, must be more than the disabled life reserves for policies subject to the agreement.

MANY, MAFL, and MAPA are required to provide written notice to EHP within thirty days after the respective long term care insurance company calculates the need for capital support. As disclosed in the statutory basis financial statements, no contributions have been required from EHP to satisfy the CSA as of or during the years ended December 31, 2010, 2011, 2012, or 2013.

- It was also noted that EHP is a party to a federal income tax allocation agreement with its parent, Lifetime Healthcare, Inc. and other eligible domestic subsidiaries, including MANY. 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, to add 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 to add additional parties to the agreement and changing the effective date of the agreement to January 1, 2007. The current tax allocation agreement was dated January 1, 2011 and executed on May 25, 2011. The Department issued a "non-objection" letter relative to this agreement on January 12, 2011.

- MANY has an Administrative Services Agreement with MedAmerica Insurance Company (MAPA) wherein MANY provides MAPA with regular and systematic administrative services including provision of all necessary forms and documents including but not limited to applications and marketing materials, applicant underwriting pursuant to MAPA policies, issuance of policies, payment of commissions, preparation of IRS forms, calculation and remittance of reinsurance premiums, policy administration and record keeping, claim adjudication and payment, preparation and delivery of reports to MAPA, and any other services required for the general administration of policies. Reimbursement is made to MANY on an exact cost basis by MAPA. The agreement was originally dated January 1, 2002 with a no-objection letter issued dated May 4, 2004. The first amendment was effective February 1, 2008 with a Department "non-objection" letter issued dated

March 8, 2008. The second amendment was effective May 1, 2010 with a Department "non-objection letter" issued dated April 27, 2010.

- MANY has an Administrative Services Agreement with Excellus Insurance Agency (EIA) wherein office space, computer use, telephonic services, print and mail services, human resources and payroll services and legal services are provided to EIA by MANY. MANY is to invoice EIA for all direct and indirect costs incurred by MANY on an actual cost basis. The agreement had an original effective date of January 1, 2004 with a Department "non-objection" letter issued dated July 8, 2004. The first amendment was effective July 1, 2009 with a Department "non-objection" letter issued dated September 8, 2009. On December 4, 2014, the Department was informed that EIA would be dissolved and all agreements with EIA would terminate as of January 1, 2015.

- The MedAmerica Companies have a Supervising General Agent Agreement with Excellus Insurance Agency (EIA) wherein the agency is authorized to recruit, train and supervise agents and agencies to solicit applications for the long term care products of the MedAmerica Companies in those states where the MedAmerica Companies have approved products and where EIA is in compliance with any regulatory licensing requirements at the time of solicitation. The MedAmerica Companies pay commissions to EIA on premium from policies sold according to the premium schedules in the agreement. The agreement had an effective date of October 1, 2013. The agreement was submitted to the Department for review on August 26, 2014. On December 4, 2014, the Department was informed that the agreement between EIA and MANY would terminate as of January 1, 2015 and EIA would be dissolved.

## D. Reinsurance

The Company's reinsurance program was established for individual policies issued on or after July 1, 2005. The reinsurance contracts, all with authorized reinsurers, were as follows as of December 31, 2013:

Quota Share Reinsurance – New Business:

- Munich American Reinsurance Company reinsurance agreement – effective October 1, 2005. This agreement reinsured, on a first dollar quota share basis, 50% of the monthly benefits on all Simplicity contracts for individual long-term care policies newly issued to those who are fifty (50) years of age or older. This agreement was terminated with regard to new business on September 30, 2009. Such business is maintained on a run-off basis.

- RGA Reinsurance Company reinsurance agreement – effective January 1, 2012. This agreement reinsured 50% of the FlexCare policies issued to those who are between eighteen (18) and eighty-five (85) years old. Per an amendment dated July 1, 2014, RGA Reinsurance Company ceased reinsuring policies with the Monthly Cash Benefit Rider and those with a ten (10) and twenty (20) year payment period.

Quota Share Reinsurance – Assumed Business:

- Hartford Life Insurance Company ("Hartford") reinsurance agreement – effective October 1, 2001. This agreement provided for reinsuring 100% of the assumed business.

- Combined Life Insurance Company of New York ("CICA NY") reinsurance agreement – effective December 31, 2008. This agreement provided for reinsuring 100% of the assumed business.

All agreements contained the required language, including an insolvency clause, meeting the requirements of Section 1308(a)(2)(A)(i) of the New York Insurance Law.

## E. Internal Controls

The NAIC "Risk Focused Surveillance" approach to financial examinations relies on the review of mitigating controls applicable to the inherent risks of the companies examined. In the case of MANY and its affiliated companies, the documentation supporting mitigating controls is housed in a vendor purchased software package. The internal controls applicable to the Company were identified by its management.

A review of the Company's controls documentation and the internal controls was an important component of the examination process. There were no identified material weaknesses or significant deficiencies identified by D&T, the Company's external auditor. Additionally, there were no material control deficiencies or internal control observations noted by the examiners during the review of the Company's internal controls.

The EHP information technology ("IT") environment is managed in a shared services model providing support to Lifetime, the MedAmerica Companies, and other affiliates.

IT infrastructure and operations for the financially significant systems identified were managed at the data centers located in Rochester, New York and Syracuse, New York.

The examination encompassed a review of the controls for financially significant applications, systems and infrastructure. The IT portion of the examination was performed in accordance with the Handbook and utilized applicable procedures found in Exhibit C – *Evaluation of Controls in Information Technology* – of the Handbook.

The IT examiners coordinated their efforts with the financial examination team as they determined whether to rely on the Information Technology General Controls ("ITGC") environment for financially significant applications.

Controls for financially significant applications, systems, and underlying infrastructure in each of the NAIC Exhibit C Information Technology Work Program areas listed below represent the framework for the scope of this examination. The following control areas were reviewed:

- Align, Plan and Organize;
- Build, Acquire and Implement;
- Deliver, Service and Support; and
- Monitor, Evaluate, and Assess.

It was determined that the overall assessment of the Company's ITGC environment for the key financial systems that supported the preparation of the Company's financial statements supported an ITGC reliance-based financial examination. The IT examiners assessed the ITGC for the Company as effective. No exceptions were noted relative to the Company's IT environment.

## 3. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2013, as contained in the Company's 2013 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Plan's financial condition as presented in its financial statements contained in the December 31, 2013 filed annual statement.

As noted previously in this report, the firm of Deloitte & Touche, LLP ("D&T") was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Deloitte concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted except for the Company's loss reserves where a under reservation was noted.

A. Balance Sheet

Assets

| | |
|---|---|
| Bonds | $ 499,644,428 |
| Real estate – properties occupied by the company | 2,011,992 |
| Cash and cash equivalents | 21,999,634 |
| Investment income due and accrued | 6,850,455 |
| Premiums and considerations | 1,107,726 |
| Amounts receivable relating to uninsured plans | 667,782 |
| Current federal and foreign income tax recoverable and interest thereon | 634,035 |
| Receivables from parent, subsidiaries and affiliates | 2,449,723 |
| Total assets | $ 535,365,775 |

Liabilities

| | |
|---|---|
| Aggregate reserve for accident and health contracts | $ 477,844,154 |
| Contract claims – accident and health | 3,544,861 |
| Premiums received in advance | 908,773 |
| Other amounts payable on reinsurance | 132,530 |
| Interest Maintenance Reserve | 14,894,261 |
| Commissions to agents due or accrued | 14,057 |
| General expenses due or accrued | 6,778,303 |
| Asset Valuation Reserve | 1,801,346 |
| Payable to parent, subsidiaries and affiliates | 804,453 |
| Liability for amounts held under uninsured plans | 555,920 |
| Payable for securities | 730,184 |
| Aggregate write-ins for other liabilities | 920,085 |
| Total liabilities | $ 508,928,927 |

Capital and Surplus

| | |
|---|---|
| Common capital stock | $ 1,800,000 |
| Gross paid-in and contributed surplus | 104,367,245 |
| Unassigned funds | (79,730,389) |
| Total capital and surplus | $ 26,436,856 |
| Total liabilities, capital and surplus | $ 535,365,783 |

**NOTE:** The Internal Revenue Service ("IRS") is currently conducting an audit of the consolidated tax return of Lifetime Healthcare, Inc. and its subsidiaries for the tax year ended December 31, 2011. As of the date of this report there have been no findings identified. The examiners are unaware of any potential exposure of MANY for any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased $7,697,538 during the four-year examination period, January 1, 2010 through December 31, 2013, detailed as follows:

| | | | | |
|---|---|---|---|---|
| Revenue | | | | |
| Premium and annuity considerations | | | $ | 166,128,006 |
| Net investment income | | | | 90,525,791 |
| Amortization of interest maintenance reserve | | | | 3,908,437 |
| Commissions and expense allowances on reinsurance ceded | | | | 1,527,096 |
| Total revenue | | | $ | 262,089,330 |
| Hospital and medical expense | | | | |
| Disability benefits and benefits under accident and health contracts | $ | 90,879,078 | | |
| Increase in aggregate reserves for life and accident and health contracts | | 178,871,324 | | |
| Total hospital and medical expenses | $ | 269,750,402 | | |
| Commissions on premiums, annuity considerations, and deposit type contract funds | | 19,779,912 | | |
| Commissions and expense allowance on reinsurance assumed | | 2,651 | | |
| General administrative expenses | | 17,857,830 | | |
| Insurance taxes, licenses and fees excluding federal income taxes | | 4,601,261 | | |
| Total expenses | | | $ | 311,992,056 |
| Net underwriting gains | | | $ | (49,902,726) |
| Federal and foreign income taxes incurred | | | | (20,880,202) |
| Net income before federal and foreign income taxes | | | | (29,022,524) |
| Net realized capital gains and losses | | | | 882,679 |
| Net income | | | $ | (28,139,845) |

Changes in Capital and Surplus

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Capital and surplus, per report on examination, as of December 31, 2009 | | | $ 18,739,318 |
| Net income | | $ 28,139,845 | |
| Net change in unrealized capital gains | $ 45,764 | | |
| Change in net deferred income tax | | 25,434,652 | |
| Change in non-admitted assets | 12,357,159 | | |
| Change in asset valuation reserve | | 826,817 | |
| Paid in surplus | 32,300,000 | | |
| Aggregate write-ins for gains to surplus | 17,395,929 | | |
| Net change in capital and surplus | | | $ 7,697,538 |
| Capital and surplus, per report on examination, as of December 31, 2013 | | | $ 26,436,856 |

## 4. AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS

The examination analysis of the claims unpaid reserves was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements as verified by the examiners. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Company's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2013.

As a result of this review, the Department determined that the Company's reserve as of the examination date was understated in relation to its surplus position.

Subsequent to the examination period and prior to the date of this report, the Department's findings were addressed through reserve strengthening, receipt of approval for premium rate increases for most of its existing policies, and the cessation of the sale of new products. This is further detailed in the Subsequent Events section of this report on examination.

## 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducted its business practices and fulfilled its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination. No findings were noted.

## 6. SUBSEQUENT EVENTS

MedAmerica Insurance Company of New York received the following additional surplus infusions from its parent Excellus Health Plans for the years 2014 through 2016:

| | |
|---|---|
| 2014 | $ 7,300,000 |
| 2015 | $51,700,000 |
| 2016 | $20,600,000 |

On January 29, 2016, MANY notified the Department regarding its decision to discontinue offering individual long term care insurance policies in New York effective February 15, 2016. MANY will, however, continue to accept applications for new policies/certificates under MANY's Insurance Participation Agreements with the New York State Partnership for Long Term Care until March 31, 2016. Additionally, MANY will continue to offer coverage under its contract with New York State Department of Civil Services for the New York State Employee and Retiree Long

Term Care Insurance Plan ("NYPERL") through the end of that contract period, which expires on April 30, 2016. The decision to discontinue writing new individual business does not affect current insureds. The current policies will remain in force per the term of the contract or until all benefits are exhausted. MANY will not cancel or decline to renew an existing policy, so long as the premium is paid.

## 7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2009, contained the following seven (7) comments and recommendations (page number refers to the prior report on examination):

| ITEM NO | | PAGE NO. |
|---|---|---|
| | Corporate Governance | |
| 1. | It is recommended that the Company maintain the required number of members on its board of directors, in accordance with Article III of the Company's by-laws. | 9 |
| | *The Company did not fully comply with this recommendation. A similar recommendation is included in this report.* | |
| 2. | It is recommended that the Company's board minutes identify when a board member has left the board, the reason for leaving the board and indicate when a replacement board member is elected or appointed to the Company's board of directors. | 10 |
| | *The Company has complied with this recommendation.* | |
| | Enterprise Risk Management | |
| 3. | It is recommended that MedAmerica Insurance Company of New York maintain official minutes of its senior staff meetings in which enterprise risk management issues are reviewed. | 12 |
| | *The Company has complied with this recommendation.* | |
| | Holding Company System | |
| 4. | It is recommended that the board of directors of MedAmerica Insurance Company of New York approve the consolidated tax allocation agreement. | 18 |
| | *The Company has complied with this recommendation.* | |

| ITEM NO | | PAGE NO. |
|---|---|---|
| | Accounts and Records | |
| 5. | It is recommended that MedAmerica Insurance Company of New York report payments made under the variable pay program as bonuses rather than other compensation on the supplemental compensation exhibit within its annual statement filings.<br>*The Company has complied with this recommendation.* | 21 |
| 6. | It is recommended that MedAmerica Insurance Company of New York file its Denials, Lapse and Replacement reports with the Superintendent of Insurance each year by June 30th.<br>*The Company has complied with this recommendation.* | 22 |
| | Information Technology | |
| 7. | It is recommended that documentation be maintained of the application change testing and the approvals of the IT manager of such test results.<br>*The Company has complied with this recommendation.* | 23 |

## 8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Corporate Governance | |
| i. | It is recommended that MANY maintain eighteen (18) members on its board of directors, as required by Article III, Section 1 of its by-laws and replace any unplanned vacancies within a reasonable period of time.<br><br>The board's membership was re-established at eighteen members on June 28, 2012 and continued at such number of directors through December 31, 2013. | 11 |
| ii. | It is recommended that the Company include within its Audit Committee charter wording that the Audit Committee be empowered as the decision making entity with regard to the potential termination of the Chief Audit Executive. | 12 |
| B. | Internal Audit Department | |
| | It is recommended that the Plan's Internal Audit Department, on behalf of the Company, provide the Company's audit committee with a more comprehensive report of its audit results relative to significant findings, along with priority rankings of the findings, which will allow MANY's audit committee and board of directors to fulfill their duties and responsibilities. | 13 |

Respectfully submitted,

__________________________
Jerry Ehlers, CFE
Insurance Examiner

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

**Jerry Ehlers**, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

__________________________
Jerry Ehlers, CFE

Subscribed and sworn to before me
this ________ day of___________2017.

Respectfully submitted,

________________________
Wai Wong, AFE
Associate Insurance Examiner

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

**Wai Wong**, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

________________________
Wai Wong

Subscribed and sworn to before me
this ________ day of___________2017.

*APPOINTMENT NO.* **31058**

*NEW YORK STATE*

# *DEPARTMENT OF FINANCIAL SERVICES*

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Wai Wong***

*as a proper person to examine the affairs of*

***MedAmerica Insurance Company of New York***

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

***Company***

*with such other information as he shall deem requisite.*

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

*this 25th day of September, 2013*

*BENJAMIN M. LAWSKY*
*Superintendent of Financial Services*

*By:*

*Lisette Johnson*
*Bureau Chief*
*Health Bureau*

*APPOINTMENT NO.* **31075**

*NEW YORK STATE*

# *DEPARTMENT OF FINANCIAL SERVICES*

*I,* ***BENJAMIN M. LAWSKY****, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Noble Consulting Services***

*as a proper person to examine the affairs of*

***MedAmerica Insurance Company of New York***

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

***Company***

*with such other information as it shall deem requisite.*

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

*this 13th day of November, 2013*

*BENJAMIN M. LAWSKY*
*Superintendent of Financial Services*

*By:*

*Lisette Johnson*
*Bureau Chief*
*Health Bureau*

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
EXCELSIOR