

REPORT ON EXAMINATION
OF
CDPHP UNIVERSAL BENEFITS, INC.
AS OF
DECEMBER 31, 2000

DATE OF REPORT

APRIL 12, 2002

EXAMINER

ELSAID ELBIALLY, CFE

TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Plan	3
A. Management and control	3
B. Territory and plan of operation	6
C. Reinsurance	7
D. Holding company system	8
E. Significant operating ratios	10
3. Financial statements	11
A. Balance sheet	11
B. Underwriting and investment exhibit	13
4. Unpaid claims	14
5. Treatment of policyholders and claimants	14
6. Summary of comments and recommendations	17



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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

April 12, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the provisions of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 21723, dated April 10, 2001, attached hereto, I have made an examination into the condition and affairs of CDPHP Universal Benefits, Inc., as of December 31, 2000, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 1223 Washington Avenue, Albany, New York.

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

1. SCOPE OF EXAMINATION

This examination covered the period from the report on organization dated June 9, 1997 through December 31, 2000. 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, 2000, a review of income and disbursements to the extent deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Plan's independent certified public accountants. A review or audit was made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners (NAIC):

- History of the Plan
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Officers' and employees' welfare and pension plan
- Territory and plan of operation
- Growth of the Plan
- Accounts and records
- Loss experience
- Treatment of policyholders and claimants

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 PLAN

The Plan was formed on January 2, 1997. It was incorporated on February 28, 1997 pursuant to Section 402 of the New York State Not For-Profit Corporation Law.

The Plan was licensed on August 14, 1997 pursuant to Article 43 of the New York Insurance Law for the purpose of providing indemnity based, prepaid comprehensive health care service through arrangements with physicians, hospitals, and other providers.

The Plan is a type D Corporation, as defined in Section 201 of the Not-for-Profit Corporation Law. The sole member of the Plan is the Capital District Physicians' Health Plan, Inc. (CDPHP); a not-for-profit corporation operating as a health maintenance organization (HMO), pursuant to Article 44 of the New York Public Health Law.

The Plan was capitalized through a contribution of a Section 1307 surplus loan from its parent, CDPHP.

A. Management and Controls

Pursuant to the Plan's by-laws, management of the Plan is vested in a board of directors consisting of not less than thirteen nor more than nineteen members, the exact number to be determined by the sole member of the Plan.

As of the examination date, the board of directors was comprised of fourteen members. The composition of the board was in compliance with Section 4301 of the New York Insurance Law.

Per the Plan's by-laws, the board of directors meetings shall be held at least quarterly, in addition to its annual meeting.

The directors of the Plan as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation.</u>
<u>Providers' Representatives:</u>	
Joseph W. Monahan, M.D., Troy, New York	Chairman of the Board of Directors, CDPHP Internist, Seton Health Systems
Steven M. Parnes., M.D. Albany, New York	Professor Albany Medical College
William A. O'Dwyer, M.D. Latham, New York	Pediatrician Shaker Pediatric
<u>Subscribers' Representatives:</u>	
Ralph W. Bandel, Esq. Cohoes, New York	Lawyer Private Practice
Rosemary Costanzo Schenectady, New York	Director of Human Resources Logic Technology, Inc.
Deirdre L. Matthews Cohoes, New York	Teacher Cohoes Catholic School
Jorge L. Valero Niskayuna, New York	Human Resources Director McNamee, Lochner, Titus

<u>Name and Residence</u>	<u>Principal Business Affiliation.</u>
<u>General Public Representatives:</u>	
Thomas P. Collins Albany, New York	President Preferred Group Plans, Inc.
Cathy B. Connors Voorheesville, New York	Deputy Commissioner of Human Resources, Albany County
Richard P. Cunningham Watervliet, New York	President Passonno Paints
Stephen C. Simmons Albany, New York	President Simmons Computing Service, Inc.
<u>Employee/Officer:</u>	
Mary E. Connolly Albany, New York	Executive Vice-President Finance, CDPHP
Diane E. Bergman Albany, New York	Executive Director, CDPHP

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. All meetings were well attended.

The examiners' review of UBI corporate records revealed that UBI filed and received a Federal tax ID number and filed proper annual federal tax return forms. However, the Plan did not file an application with the Internal Revenue Service (IRS) for tax-exempt status.

It is recommended that the Plan apply to the IRS for tax-exempt status in order to benefit from being incorporated as a not-for-profit corporation.

The principal officers of the Plan, as of December 31, 2000, were as follows:

<u>Name</u>	<u>Title</u>
Joseph W. Monahan, M.D.,	Chairman
Thomas P. Collins,	Vice Chairman
Diane E. Bergman,	Executive Director
Cathy Brower Connors	Secretary
Mary E. Connolly	Director of Finance

B. Territory and Plan of Operation

The Plan is licensed to do business as a not-for-profit health service corporation within the State of New York pursuant to Article 43 of the New York Insurance Law. The Plan started operations on January 1, 1998. During the examination period its only product was a companion Point of Service (POS) contract sold in conjunction with its parent's, (CDPHP) HMO products to provide out of network benefits indemnity which are subject to a deductible and coinsurance.

The Plan's subscriber enrollment was substantially increased from 312 in 1998 to 1,866 in 1999, through its parent's (CDPHP) acquisition in late 1999 of the New York State book of business of Community Health Plan ("CHP").

In December 2001, the Plan received approval for a stand-alone indemnity based preferred provider point of service product called Paragon. Paragon provides both medical and hospital coverage.

C. Reinsurance

To limit its exposure to losses from catastrophic inpatient hospital claims, the Plan entered into an excess of loss reinsurance agreement with Reliastar Life Insurance Company, a New York licensed insurer.

The reinsurance agreement provides reimbursement for 85% of the cost for eligible inpatient services of both the Plan and its parent, CDPHP, in excess of a \$50,000 per member, per year deductible. CDPHP is similarly covered under its own reinsurance contract with the same reinsurer.

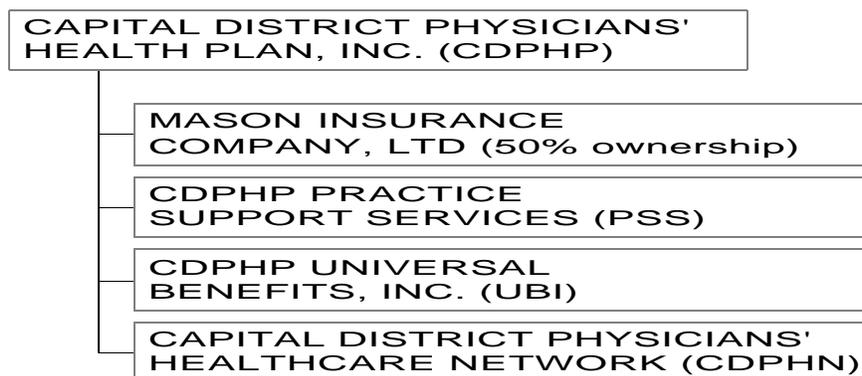
Eligible inpatient coverage is limited for each individual member to the lesser of:

- (a) \$2,500 average per day.
- (b) The contracted amount; or
- (c) 100% of billed charges; or
- (d) The amount paid by the Plan

The maximum reinsurance coverage payable under the reinsurance agreement, during any agreement year, for eligible coverage for each member shall be \$1,000,000 when combined with CDPHP's agreement with the same reinsurer, with a lifetime maximum of \$2,000,000.

D. Holding Company System

The following chart depicts the Plan in relationship to its affiliates within the holding company system:



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

CDPHP was formed on February 27, 1984 under Section 402 of the Not-For-Profit Corporation Law. CDPHP was licensed as a Health Maintenance Organization (HMO) pursuant to Article 44 of the Public Health Law of the State of New York and obtained its certificate of authority to operate as an individual practice association (IPA) model HMO, effective April 30, 1984.

UBI has no employees. Instead, the Plan entered into an administrative service agreement with its parent, CDPHP, wherein various services are provided to the Plan by CDPHP, including, but not limited to overall administration, financial, legal, internal operations, management information systems, marketing, consultation, utilization review services, claims administration; developing, revising, and refining new health care services products, systems, and policies.

The Plan reimburses its parent on a monthly basis based on actual costs incurred. The Plan's premiums are collected by CDPHP and subsequently disbursed to UBI on a monthly basis. As of December 31, 2000, the Plan had a receivable from CDPHP in the amount of \$178,648.

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

CDPHN is a wholly owned subsidiary of CDPHP, incorporated on June 14, 1991. CDPHN was organized for the purpose of providing managed care and administrative support services to self-insured employer groups.

The Plan pays network fees on a monthly basis to CDPHN for the use of CDPHN's network of contract providers. During the year 2000, total fees paid to CDPHN were \$15,578.

Mason Insurance Company, Ltd. (Mason)

Mason is a Bermuda corporation, incorporated on January 2, 1992 as a captive offshore reinsurance company, of CDPHP and Independent Health Association, Inc. (IHA). CDPHP and IHA each own 50% of Mason.

CDPHP Practice Support Services (PSS)

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

E. Significant Operating Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Claims	\$3,760,878	93.8 %
Claims adjustment expenses	102,326	2.5
General administrative expenses	512,966	12.8
Net underwriting loss	(364,629)	(9.1)
Premium earned	<u>\$4,011,541</u>	<u>100.0 %</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination as of December 31, 2000. This statement is the same as the balance sheet filed by the Plan.

<u>Assets:</u>	<u>Ledger</u> <u>Assets</u>	<u>Non-Ledger</u> <u>Assets</u>	<u>Not-Admitted</u> <u>Assets</u>	<u>Admitted</u> <u>Assets</u>
Cash and short-term investments	\$1,414,819			\$1,414,819
Uncollected premiums	193,787			193,787
Amounts recoverable from reinsurers	251,999			251,999
Federal income tax recoverable	71,000			71,000
Investment income due & accrued	14,841			14,841
Recoverable from parent	178,648			178,648
Goodwill	46,063		46,063	-0-
Total Assets	<u><u>\$2,171,157</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 46,063</u></u>	<u><u>\$2,125,094</u></u>
 <u>Liabilities:</u>				
Claims unpaid				\$1,056,000
Unearned premiums				15,098
Other expenses due and accrued				20,053
Aggregate write-ins for other liabilities				23,566
Total Liabilities				<u>\$1,114,717</u>
<u>Reserves and Other Funds:</u>				
Statutory reserve				\$ 80,231
Surplus notes				1,250,000
Aggregate write-ins for reserves and other funds				(46,063)
Unassigned funds (surplus)				(273,791)
Total reserves and unassigned funds				<u>\$1,010,377</u>
Totals				<u><u>\$2,125,094</u></u>

Notes:

- No liability appears in the above balance sheet for a loan in the amount of \$1,250,000 and interest accrued thereon in the amount of \$373,014. The loan was granted pursuant to the provision of Section 1307 of the New York Insurance Law. As provided in such section, repayment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent of Insurance of the State of New York.
- The Internal Revenue Service did not audit the tax returns filed by the Plan since its inception. The examiner is unaware of any potential exposure of the Plan to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit:

Reserves and unassigned funds decreased by \$229,032 during the period under examination, from the organization examination report dated June 9, 1997 through December 31, 2000, detailed as follows:

<u>Underwriting income</u>		
Premiums earned		\$4,011,541
Claims incurred		3,760,878
<u>Expenses incurred</u>		
Claim adjustment	\$ 102,326	
Administrative	379,814	
Soliciting	66,615	
Reinsurance allowances	<u>66,537</u>	
Total		615,292
Net underwriting loss		\$ (364,629)
Investment income		233,210
Other expenses		(51,550)
Net loss before federal income taxes		\$ (182,969)
Federal income taxes incurred		-0-
Net loss from operations		\$ <u>(182,969)</u>
<u>Reserves and Unassigned Funds</u>		
Reserves and unassigned funds per report on organization as of June 9, 1997		\$1,239,409
Net loss from operations	\$ (182,969)	
Change in non-admitted assets		<u>(46,063)</u>
Net decrease in reserves and unassigned funds	\$ (229,032)	
Reserves and unassigned funds per report on examination as of December 31, 2000		<u>\$1,010,377</u>

4. UNPAID CLAIMS

The examination liability of \$1,056,000 is the same as the amount reported by the Plan as of the examination date. 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 its filed annual statements.

5. TREATMENT OF POLICYHOLDERS AND CLAIMANTS

In the course of this examination, a review was made of the manner in which the Plan conducts its business and fulfills its contractual obligations to policyholders and claimants.

A general review was directed at practices of the Plan in the following major areas:

- A) Sales and advertising
- B) Underwriting
- C) Rating
- D) Claims

Claims:

During the examination period (1997-2000), the Plan did not use Explanation of Benefits (EOB) forms. Rather, for claims denied wholly or in part, payable to subscriber/contract-holder, or provider denied claims where the subscriber/contract-holder is liable for payment of all or part of the billed charges, the Plan sent denial letters.

EOBs are an integral part of the link between the subscriber/contract-holder and his/her insurer, providing vital information as to how the claim was processed.

Pursuant to Section 3234 of the New York Insurance Law, the Plan is not required to provide an EOB if the claim is paid in full to a participating provider unless it is requested by the insured or subscriber. However, regardless of who the claim is payable to, EOBs are required when there is a reduction in benefits; when a claim is denied wholly or in part; or when a claim is paid to anyone other than a participating provider.

The review indicated that the Plan does not send out EOBs, as required by Section 3234 of the New York Insurance Law. Mailing of a denial letters was not sufficient, because such denial letters, in the form presented to the examiners, failed to contain all of the provisions required by the aforementioned Section 3234 of New York Insurance Law.

Section 3234(b), states,

“The explanation of benefits form must include at least the following:

- (1) the name of the provider of service, the admission or financial control number, if applicable;
- (2) the date of service;
- (3) an identification of the service for which the claim is made;
- (4) the provider’s charge or rate;
- (5) the amount or percentage payable under the policy or certificate after deductibles, co-payments, and any other reduction of the amount claimed;
- (6) a specific explanation of any denial, reduction, or other reason, including any other third-party payor coverage, for not providing full reimbursement for the amount claimed; and
- (7) a telephone number or address where an insured or subscriber may obtain clarification of the explanation of benefits, as well as a description of the

time limit, place and manner in which an appeal of a denial of benefits must be brought under the policy or certificate and a notification that failure to comply with such requirements may lead to forfeiture of a consumer's right to challenge a denial or rejection, even when a request for clarification has been made".

The review of Year 2000, denied claims revealed that 1,929 appear to be in violation of Section 3234(a)&(b) of the New York Insurance Law. The Plan failed to send to its subscribers a proper EOB that includes all of the requisite information required by the New York Insurance Law. Therefore, the subscribers were not properly informed of their appeal rights and how their claims were processed.

It is recommended that the Plan issue an EOB that includes all of the requisite information required by Sections 3234(a)&(b), of the New York Insurance Law.

6. SUMMARY OF COMMENTS AND RECOMMENDATION

<u>ITEM</u>		<u>PAGE NO.</u>
A	It is recommended that the Plan apply to the IRS for tax-exempt status in order to benefit from being incorporated as a not-for profit corporation.	5
B	It is recommended that the Plan issue EOBs that include all of the requisite information required by Sections 3234(a)&(b), of the New York Insurance Law.	16

Appointment No. 21723

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

Elsaid ElBially

as a proper person to examine into the affairs of the

CDPHP UNIVERSAL BENEFITS, INC.

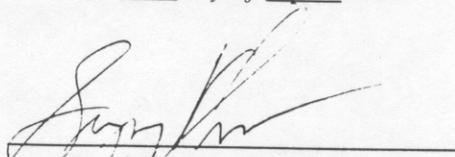
and to make a report to me in writing of the said

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 10th day of April 2001



(by) Gregory Serio
Acting Superintendent

