STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

CIGNA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2005

DATE OF REPORT: MARCH 2, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

CIGNA LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2005

DATE OF REPORT: MARCH 2, 2007

EXAMINER: FLORA EGBUCHULAM

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Company	4
	A. History	4
	B. Holding company	4
	C. Management	6
	D. Territory and plan of operation	9
	E. Reinsurance	10
4.	Significant operating results	11
5.	Financial statements	14
	A. Assets, liabilities, capital and surplus	14
	B. Condensed summary of operations	16
	C. Capital and surplus account	17
6.	Market conduct activities	18
	A. Advertising and sales activities	18
	B. Underwriting and policy forms	20
	C. Treatment of policyholders	20
7.	New York State prescription drug benefit program	21
8.	Prior report summary and conclusions	25
9.	Summary and conclusions	27

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

David A. Paterson
Governor

Eric Dinallo
Superintendent

August 27, 2008

Honorable Eric Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22523, dated June 29, 2006 and annexed hereto, an examination has been made into the condition and affairs of CIGNA Life Insurance Company of New York, hereinafter referred to as "the Company" or ("CLICNY") at its home office located at 140 East 45th Street, New York, New York 10017.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement. (See item 5 of this report)

The Company violated Section 243.2(d) of Department Regulation No. 152 for failing to maintain the prescription drug claims and financial records subject to examination by the Superintendent. (See item 7A of this report)

The Company violated Section 243.2(e) of Department Regulation No. 152 by failing to make the prescription drug claim and financial records readily available and easily accessible to the Superintendent in accordance with Section 310 of the New York Insurance Law. (See item 7B of this report)

The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy applications as required by the Regulation. (See item 6B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2005 to determine whether the Company's 2005 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendation and comment contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

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.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of the State of New York on June 29, 1965 and was licensed and commenced business on December 28, 1965. Initial resources of $2,000,000, consisting of common capital stock of $1,000,000 and paid in and contributed surplus of $1,000,000, were provided through the sale of 40,000 shares of common stock (with a par value of $25 each) for $50 per share to Life Insurance Company of North America ("LINA"). In 1972, the par value of the capital stock was increased to $27.50 per share, increasing capital paid up to $1,100,000. In 1973, ownership of the Company was transferred from LINA to Insurance Company of North America ("INA"). In March of 1977, INA Financial Corporation, a wholly owned subsidiary of INA Corporation, purchased the Company from INA for cash and marketable securities valued at $12,369,849.

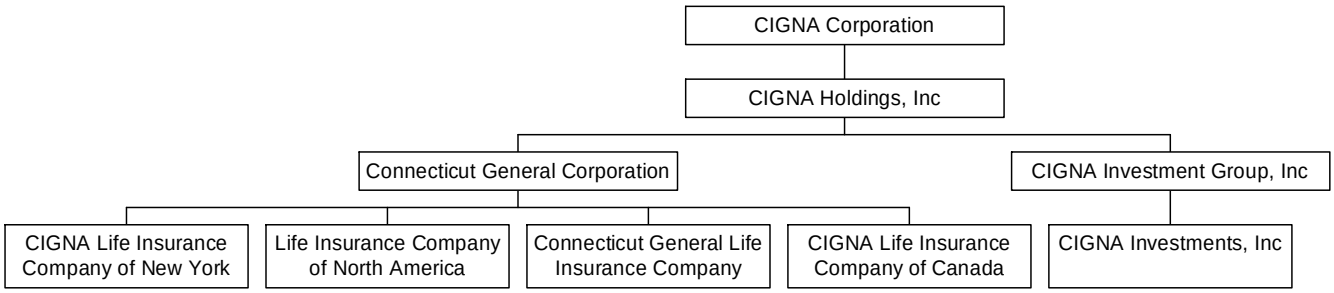
On April 1, 1982, INA Corporation merged with Connecticut General Corporation, ("CG Corp."). At that time, the resulting merged organization ranked as the second largest publicly-held insurance group in the United States. The new holding company was named CIGNA Corporation ("CIGNA"). On July 19, 1999, the Company changed its name from INA Life Insurance Company of New York to CIGNA Life Insurance Company of New York.

The Company had capital stock of $1,100,000 and contributed surplus of $5,815,000 as of December 31, 2005. There were no changes in capital stock or contributed surplus during the examination period.

B. Holding Company

The Company is a wholly owned subsidiary of CG Corp., a Connecticut stock company. CG Corp. is in turn a wholly owned subsidiary of CIGNA Holdings, Inc., a Delaware holding company. The ultimate parent of the Company is CIGNA, also a Delaware holding company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2005 follows:



The Company had 12 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement 1 File No. 22209	01/01/1994 Amended 08/01/2005	LINA	CLICNY	Administration	2003 $(6,643,334) 2004 $(5,345,962) 2005 $(5,963,999)
Service Agreement 2 File No. 32148	01/01/1994	CLICNY	LINA	Claims Administration	2003 $8,906,760 2004 $3,828,627 2005 $(338,433)
Service Agreement 3 File No. 32149	01/01/1994 amended 01/01/2006	LINA	CLICNY	Claims Administration	2003 $(2,577,698) 2004 $(1,922,891) 2005 $(2,348,542)
Service Agreement 4 File No. 34834	01/01/2004	LINA	CLICNY	Sales Service	2003 $(1,239,082) 2004 $(1,024,790) 2005 $(1,498,926)
Service Agreement 5 File No. 34140	01/01/2004	CLICNY	LINA	Sales Service	2003 $1,910,039 2004 $ 870,486 2005 $ 519,067
Service Agreement 7 File No. 34441	01/01/1994	CLICNY	LINA	Service & Expense Underwriting & Contracts drafting, filling and related activities	2003 $ 494,578 2004 $ 834,867 2005 $1,010,776
Service Agreement 8 File No. 18752	01/01/1994	LINA	CLICNY	Service & Expense U/W & Contracts	2003 $ (817,421) 2004 $ (823,378) 2005 $ (779,355)
Service Agreement 9 File No. 29090	10/01/2000	Connecticut General Life Insurance Company (“CG Life”)	CLICNY	Pension & Settlement Annuity	2003 $ (138,325) 2004 $ 0 2005 $ 0
Service Agreement 10 File No. 20275	10/01/1993	CIGNA	CLICNY	Payroll	2003 $ (17,732) 2004 $ (6,422) 2005 $ (6,422)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement 11 File No. 21222	01/01/1994	Cigna Investment Advisory Company	CLICNY	Investments	2003 $ (236,000) 2004 $ (260,000) 2005 $ (465,386)
Service Agreement 12 File No. 20402	05/01/1994	CG Life	CLICNY	Group Conversion	2003 $ (199,800) 2004 $ (19,140) 2005 $ (421,850)
Service Agreement 17 File No. 26254	01/01/1999	CIGNA	CLICNY	Allocation and Payment of Expenses	2003 $ (122,818) 2004 $ (140,333) 2005 $ 0

* Amount of Income or (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 13 directors. As prescribed by the charter, the number of directors shall be increased to not less than 13 and not more than 17 within one year following the end of the calendar year in which the admitted assets of the Company exceed $1.5 billion dollars. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2005, the board of directors consisted of nine members. Meetings of the board are held quarterly.

The nine board members and their principal business affiliation, as of December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Marguerite Boslaugh Simsbury, CT	Director of Investments Cigna Life Insurance Company of New York Managing Director CIGNA Investments	2004
Mary B. Conrad* New York, NY	Senior Vice President Fiduciary Trust International	1998
Gail B. Harris* New York, NY	Retired Counsel Simpson, Thatcher & Bartlett	2004
Carl E. Horton* Hackensack, NJ	President and Chief Executive Officer Absolute Vodka	1990
Thomas J. Joyce Jr. Oreland, PA	Retired Sr. Vice President – Underwriting CIGNA Group Insurance	1993
Steven G. Mellas Glenmoore, PA	Vice President Cigna Life Insurance Company of New York Chief Compliance Officer CIGNA Group Insurance	1998
Jerold H. Rosenblum * Hilton Head, SC	Retired Senior Vice President and Chief Counsel CIGNA Group Insurance	1998
William J. Smith, Jr. Springfield, PA	Vice President - Finance Cigna Life Insurance Company of New York Chief Operating Officer and Business Financial Officer CIGNA Group Insurance	2005
Anne A. Taylor* New York, NY	Former Vice President for Nursing New York Hospital	1996

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

Section 2.4(b) of the Company's by-laws state, in part:

> "Executive Committee: The Executive Committee shall consist of at least five members of the Board of Directors, a majority of whom shall not be officers or salaried employees of the company . . . "

The Executive Committee meetings are held in July of each year. The minutes of the Executive Committee meetings held between July 31, 2003 and July 28, 2005 show that only four members were appointed, and attended the meetings. This is contrary to the Company's by-laws.

The Company maintains that it increased the number of its members to at least five in November of 2005 as required by its by-laws; however, only four members are listed on the February 9, 2006 list of Committee Membership and Structure. The Company failed to provide the requested minutes of the July 2006 meeting of the Executive Committee.

The Company is not in compliance with Section 2.4(b) of its by-laws because it failed to maintain at least five board members on its Executive Committee.

The following is a listing of the principal officers of the Company as of December 31, 2005:

Name	Title
Karen S. Rohan	Acting President
Peter J. Vogt	Chief Financial Officer, Actuary and Controller
Steven G. Mellas*	Vice President
Susan L. Cooper	Corporate Secretary
William J. Smith, Jr.	Vice President – Finance
Michael A. James	Chief Counsel
Scott R. Lambert	Vice President
Daniel J. Spillane	Vice President – Actuary
Marguerite Boslaugh	Director of Investments
Kenneth R. Hamm	Vice President

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

Effective January 23, 2006, Karen S. Rohan replaced Gregory P. Wolf as President. Gregory P. Wolf, although not listed on the 2005 annual statement, was the president of the Company through most of the examination period; he resigned in November of 2005.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law. The Company did not write annuities during the period under review.

The Company is licensed to transact business in five states, namely Alabama, Missouri, New York, Pennsylvania, Tennessee, and in the District of Columbia. In 2005, 100% of life premiums and 99.9% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company's major products consist of group long term disability, group short term disability and group life insurance. These major products together comprise approximately 88% of total written premium for 2005 and the remaining 12% consists of miscellaneous minor products. The Company does not write ordinary life insurance products, nor does it write annuities.

Group Long Term Disability, represented 59% of total written premium. This product provides a monetary benefit to active full-time employees who suffer a covered disability while insured under the plan. Insureds receive a monthly benefit, up to a percentage of covered monthly earnings, subject to a maximum benefit amount. The plan covers disabling injuries or sickness that last beyond the benefit waiting period, whether they occur on or off the job. Maximum benefits vary based on the size of the employer group. The policy is issued to employer groups subject to the Age Discrimination in Employment Act. Product features include a partial/residual disability benefit, a survivor income benefit and an annuity supplement benefit.

Group Short Term Disability produced 13% of the Company's total written premium. This product provides a monetary benefit to active full-time employees who suffer a covered disability while insured under the plan. Insureds receive a weekly benefit, up to a percentage of covered weekly earnings, subject to a maximum benefit amount. The plan covers disabling injuries or sicknesses that are sustained off the job.

Group Term Life represents about 16% of the Company's total written premium. This product provides group term life insurance for covered employees and eligible family members, for loss of life. Benefit amounts are multiples of salary, up to a maximum benefit amount. The

standard features include: conversion privilege and portability; domestic partner coverage; accidental death benefit and terminal illness benefit.

Prior to January 1, 2006, the Company was the insurer of the New York State Prescription Drug program. Gross written premiums for 2005 were $1.1 billion. The policy terminated as of December 31, 2005; and while the policy was in force, it was entirely reinsured with and administered by the Company's affiliate, CG Life. (See item 8 of this report)

The Company's agency operations are conducted on a general agency basis. The Company had 1,145 producers at December 31, 2005.

E. Reinsurance

As of December 31, 2005 the Company had reinsurance treaties in effect with 33 companies, of which 17 were authorized or accredited. The Company's life and accident and health businesses are reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis.

The Company reinsured 100% of its individual life contracts with Monitor Life Insurance Company, an authorized insurer. The total face amount of life insurance ceded as of December 31, 2005, was $121,824,900, which represents 2.33% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $39,213 was supported by letters of credit.

The Company was the insurer of the prescription drug benefit program under New York State's principal employee health plan, the Empire Plan. The Company ceded 100% of the coverage to CG Life, and contracted with Express Scripts Inc. ("Express Scripts" or "ESI") a pharmacy benefit manager, to administer the program. In 2004 the New York Attorney General filed a lawsuit against ESI; as a result of the lawsuit the drug benefits program policy was cancelled at year-end 2005. (See item 8 of this report)

The Company did not assume any insurance business during the period under examination.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 2002	December 31, 2005	Increase
Admitted assets	$299,098,832	$362,683,157	$63,584,325
Liabilities	$236,676,930	$279,625,436	$42,948,506
Common capital stock	$ 1,100,000	$ 1,100,000	$ 0
Gross paid in and contributed surplus	5,815,000	5,815,000	0
Group contingency life reserve	3,875,946	4,252,502	376,556
Unassigned funds (surplus)	51,630,956	71,890,219	20,259,263
Total capital and surplus	$ 62,421,902	$ 83,057,721	$20,635,819
Total liabilities, capital and surplus	$299,098,832	$362,683,157	$63,584,325

Assets increased by 21% between the examination years, primarily as a result of increased bond purchases and capital gains. The increase in liabilities was primarily attributed to an increase in aggregate reserves in accident and health business.

The Company's invested assets as of December 31, 2005, were mainly comprised of bonds. The majority (98%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations.

Privately placed securities held by the Company as of December 31, 2005 represented 40.3% of all bonds, of which 99% were of NAIC Classes 1 and 2 bonds.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

	Group Life	
Year	Issued & Increases	In Force
2003	$ 349,720	$3,010,757
2004	$ 401,329	$3,257,805
2005	$2,725,915	$5,236,317

Increase in group life during the period was mainly due to large in force sales.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2003	2004	2005
Individual annuities	$ 18,901	$ 15,713	$ (89,997)
Group:			
Life	$ 1,101,752	$ 327,405	$ 3,480,515
Annuities	(7,746)	105,530	(11,597)
Total group	$ 1,094,006	$ 432,935	$ 3,468,918
Accident and health:			
Group	$11,557,024	$18,427,402	$15,342,617
Other	28,293	41,033	51,333
Total accident and health	$11,585,317	$18,468,435	$15,393,950
Total	$12,698,224	$18,917,083	$18,772,871

The decrease in group life in 2004 was mostly attributed to premium reduction in the fourth quarter of 2004, while the increase in 2005 was attributed to the sale of large in force policies. Decrease in group accident and health gains in 2005, was due to cancellations of disability business, especially the loss of two large long term disability ("LTD") accounts effective January 1, 2005, which was partially offset by new business.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	2003	2004	2005
Premiums earned	100.0%	100.0%	100.0%
Incurred losses	95.1%	75.8%	79.2%
Commissions	(29.0)	(26.3)	(32.6)
Expenses	47.0	39.6	50.9
	113.1%	89.1%	97.5%
Underwriting results	(13.1)%	10.9%	2.5%

The Company attributed the 2003 decrease in the underwriting ratio to large increases in incurred claims for LTD. The increase in the underwriting ratio in 2004 was due to increased premiums related largely to new LTD business issued and a decrease in general insurance expenses related to the closing of the Tarrytown office. The Tarrytown office was a claims processing center. The underwriting ratio decreased in 2005 as a direct result of a large decrease in premiums which was partially offset by a decrease in incurred claims both related to LTD.

The Company reported group accident and health premiums of $76,840,951 and group accident and health policies in force of 2,706 in the Exhibit of Number of Policies in force for Accident and Health Insurance in the 2005 filed annual statement. A review of the supporting data for these items showed premiums of $72,724,143 and policies in force of 2,522; a difference of $4,116,808 in premiums and 184 policies. The figures reported in the 2005 filed annual statement included canceled policies.

The examiner recommends that the Company take greater care in the preparation of the Exhibit of Number of Policies in force for Accident and Health Insurance.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2005, as contained in the Company's 2005 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 Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	$330,774,810
Stocks:	
Common stocks	81,718
Cash, cash equivalents and short term investments	3,422,608
Receivable for securities	99,761
Investment income due and accrued	5,441,952
Premiums and considerations	
Uncollected premiums and agents' balances in the course of collection	8,949,717
Reinsurance:	
Amounts recoverable from reinsurers	6,940,489
Other amounts receivable under reinsurance contracts	843,708
Current federal and foreign income tax recoverable and interest thereon	725,004
Net deferred tax asset	2,029,000
Receivables from parent, subsidiaries and affiliates	3,374,391
Total admitted assets	$362,683,158

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 7,975,091
Aggregate reserve for accident and health contracts	243,179,635
Contract claims:	
Life	4,887,955
Accident and health	4,707,953
Interest maintenance reserve	3,662,702
Commissions to agents due or accrued	1,275,165
General expenses due or accrued	1,259,597
Taxes, licenses and fees due or accrued, excluding federal income taxes	(829,793)
Amounts withheld or retained by company as agent or trustee	32,547
Remittances and items not allocated	1,031,103
Miscellaneous liabilities:	
Asset valuation reserve	1,142,982
Reinsurance in unauthorized companies	140,287
Payable to parent, subsidiaries and affiliates	9,766,319
Drafts outstanding	1,316,111
Escheat liability	77,782
Total liabilities	$279,625,436
Common capital stock	$ 1,100,000
Gross paid in and contributed surplus	5,815,000
Group contingency life reserve	4,252,502
Unassigned funds (surplus)	71,890,219
Surplus	$ 81,957,721
Total capital and surplus	$ 83,057,721
Total liabilities, capital and surplus	$362,683,158

B. CONDENSED SUMMARY OF OPERATIONS

	2003	2004	2005
Premiums and considerations	$ 80,982,498	$100,681,491	$ 91,880,996
Investment income	19,352,393	19,814,731	20,453,897
Commissions	28,918,277	38,638,886	43,494,229
Total income	$129,253,168	$159,135,108	$155,829,122
Benefit payments	$ 54,609,545	$ 56,241,523	$ 66,136,676
Increase in reserves	20,256,567	16,083,433	1,941,179
Commissions	8,140,624	15,915,153	19,099,256
General expenses & taxes	35,677,195	40,956,042	42,445,455
Total deductions	$118,683,931	$129,196,151	$129,622,566
Net gain	$ 10,569,237	$ 29,938,957	$ 26,206,556
Federal and foreign income taxes incurred	(2,128,987)	11,021,874	7,433,687
Net gain from operations before net realized capital gains	$ 12,698,224	$ 18,917,083	$ 18,772,869
Net realized capital gains (losses)	(1,832,462)	56,054	(1,255,193)
Net income	$ 10,865,762	$ 18,973,137	$ 17,517,676

C. CAPITAL AND SURPLUS ACCOUNT

	2003	2004	2005
Capital and surplus, December 31, prior year	$62,421,902	$60,653,752	$73,747,214
Net income	$10,865,762	$18,973,137	$17,517,676
Change in net unrealized capital gains (losses)	540,650	(3,576)	28,465
Change in net deferred income tax	(4,197,000)	839,000	502,000
Change in non-admitted assets and related items	(1,409,365)	(1,049,947)	109,544
Change in liability for reinsurance in unauthorized companies	146,009	1,073,780	11,076
Change in asset valuation reserve	385,794	(783,558)	(358,252)
Dividends to stockholders	(8,100,000)	(5,955,375)	(8,500,000)
Net change in capital and surplus for the year	$ (1,768,150)	$13,093,461	$ 9,310,509
Capital and surplus, December 31, current year	$60,653,752	$73,747,214	$83,057,722

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices and solicitation of insurance policies.

Section 215.17(a) of Department Regulation No. 34 states, in part:

> "Advertising file. Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket . . . and group policies hereafter disseminated in this or any other state . . . "

Section 219.5(a) of Department Regulation No. 34-A states, in part:

> "Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state . . . "

During the period under review the Company did not maintain a complete file containing a specimen copy of every printed, published or prepared advertisement at its home office. The Company stated that all advertising files are maintained in an electronic format on Cigna Group Insurance network (LAN) drives and that such documentation would remain intact and available in the event of a physical disaster. The Company denied the examiner read access to the LAN. A CD with copies of the advertisements was brought from Philadelphia to the home office for the purpose of viewing the advertisements.

The Company violated Section 215.17(a) of Department Regulation No. 34 and Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office, a complete advertising file containing a specimen copy of every printed, published or prepared advertisement disseminated in this state.

Section 2112(a) of the New York Insurance Law states, in part:

> "Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . . "

Section 2114(a)(3) of the New York Insurance Law states, in part:

> "No insurer . . . doing business in this state . . . shall pay any commission or other compensation to any person, firm, association or corporation for services in soliciting, negotiating or selling in this state any new contract of accident or health insurance . . . except to a licensed accident and health insurance agent of such insurer . . . or to a licensed insurance broker of this state . . . "

A review of 42 agent licensing and appointment records revealed that a few agents sold insurance for the Company and received compensation without being appointed.

The Company violated Section 2112(a) of the New York Insurance Law by failing to file certificates of appointment with the Superintendent in order to appoint insurance agents to represent it. The prior report on examination contains a similar violation (see item 9B of this report).

The Company violated Section 2114(a)(3) of the New York Insurance Law by paying commissions to agents not appointed with the Company. The prior report on examination contains a similar violation (see item 9C of this report).

Section 243.2 of Department Regulation No. 152 states, in part:

> "(a) . . . every insurer shall maintain its . . . producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provisions of this Part.
> (b) Except as otherwise required by law or regulation, an insurer shall maintain . . .
> (5) A licensing record for six calendar years after the relationship is terminated for each Insurance Law licensee with which the insurer establishes a relationship. Licensing records shall be maintained so as to show clearly the dates of appointment and termination of each licensee. . . . "

A review of 18 agent termination records revealed that the Company failed to maintain the records for three (17%) agents terminated during the examination period.

The Company violated Section 243.2(b)(5) of Department Regulation No. 152 by failing to maintain agents licensing records so as to clearly show the dates of termination of licensees.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Section 243.2(b) of Department Regulation No. 152 states, in part:

> " . . . an insurer shall maintain:
> (1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer . . .
> A policy record shall include . . .
> (ii) the application, including any application form or enrollment form for coverage under any insurance contract or policy . . . "

The examiner reviewed a sample of 100 group life and group accident and health underwriting files and found that the Company failed to maintain the application forms for 18 (18%) of the files reviewed.

The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy applications as required by the Regulation.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims and changes. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. NEW YORK STATE PRESCRIPTION DRUG BENEFIT PROGRAM

In 1957 the State of New York established the New York State Health Insurance Program ("NYSHIP") to provide essential health insurance to State Employees. NYSHIP has one indemnity insurance plan, the Empire Plan. The Empire Plan includes a drug prescription program ("the Program") which provides coverage to certain groups within the Empire Plan.

Effective January 1, 1999 the New York State Department of Civil Service ("DCS") and Connecticut General Life Insurance Co. ("CIGNA") and INA Life Insurance Company of NY ("INA") entered into a contract whereby INA issued a policy to DCS and then INA re-insured 100% of the policy to CIGNA. INA is now Cigna Life Insurance Company of New York.

On August 4, 2004, the Office of the New York State Attorney General commenced a lawsuit against Express Scripts, ESI Mail Pharmacy, the Company and one of its affiliates. The Company and several affiliates ("CIGNA companies") insure the prescription drug benefit program and hold the contract with DCS. Under an agreement with the CIGNA companies, Express Scripts is responsible for administering the prescription drug benefit under New York State's principal employee health plan, the Empire Plan. The lawsuit contained many allegations relating to the administration of the prescription drug benefit program.

A. Regular Drug Claims Review

Section 243.2 of Department Regulation No. 152 states, in part:

> "(a) In addition to any other requirement contained in Insurance Law Section 325 . . . every insurer shall maintain its claims . . . financial . . . and such other records subject to examination by the superintendent . . .
> (b) . . . an insurer shall maintain:
> (7) A financial record necessary to verify the financial condition of an insurer, including . . . annual and quarterly statement workpapers . . . and source documents, for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.
> (d) An insurer shall require, by contract or other means, that a person authorized to act on its behalf in connection with the doing of an insurance business . . . an administrator, or other person or entity, shall comply with the provisions of this Part in maintaining records that the insurer would otherwise be required to maintain. Notwithstanding the above, the insurer shall be responsible if the person or entity fails to maintain the records in the required manner.

> (e) The records shall be readily available and easily accessible to the superintendent in accordance with Insurance Law, Section 310 . . . Upon request of the superintendent, the insurer shall provide a hard copy of the record, or, if the record is maintained in a medium which is used by the superintendent, the insurer may provide the record in that medium. Failure to produce and provide a record within a reasonable time frame shall be deemed a violation of Insurance Law, section 308 unless the insurer can demonstrate that there is a reasonable justification for that delay."

The following extract was taken from a September 2000 report of Special Review of Express Scripts, Inc. conducted by the holding company's internal audit department. The 2000 Special Review report states, in part:

> "Claim reports submitted by Express Scripts, Inc. (ESI) to CIGNA, which are used to disclose State of New York (SoNY) pharmacy benefit claims processed and to determine the administrative fees payable to ESI by CIGNA, do not reflect the underlying claim data per ESI's claim payment system (VNET). This may result in inaccurate payment of administrative fees. . . . We found discrepancies between the number of claims processed and related amounts paid per the reports versus the underlying claim data per the VNET system . . .
> CIGNA HealthCare does not have a Business Continuity Plan (BCP) for ESI in the event ESI is unable or unwilling to fulfill their contractual obligation. This could result in CIGNA's failure to meet contractual terms with the State of New York, member dissatisfaction, as well as the potential for harm to members unable to fill necessary prescriptions."

The examiner also reviewed the DCS prescription drug benefit agreement between Express Scripts and the CIGNA companies which was in effect during the period under examination. The contract indicates that all drug claim records produced by ESI will remain the property of ESI and that CIGNA's access to such records terminates immediately upon the termination of the contract between ESI and CIGNA. The contract also indicates that ESI will make such records available to the State and any state agency for examination purposes.

On October 24, 2006, the examiner requested claim files for the drug claims processed during the examination period by ESI on behalf of the Company and was informed that the information would come from ESI. On October 30, 2006 ESI informed the examiner that it does not maintain paper claim files but would provide screen prints and electronic data files that contain sufficient information to conduct the examination. The examiner agreed to use the screen prints on a test basis and ESI provided screen prints for the initial trial sample, a partial

response received on December 7, 2006, 32 business days after the request, but did not provide the data files for the rest of the claims sampled for review until February 2007.

The Company reported drug claims paid in excess of $1 billion in 2005 but failed to secure claim records from ESI prior to the cancellation of the contract with CIGNA effective December 31, 2005. CIGNA ignored the control weaknesses and warnings identified during the Special Review examination of ESI prior to the examination period, and failed to obtain documentation for the over $1 billion of drug claims processed on its behalf. The Company failed to maintain financial records to support the amount of prescription drug claims paid as reported in the annual statement during the examination period.

The Company violated Section 243.2(d) of Department Regulation No. 152 for failing to maintain the prescription drug claims and financial records subject to examination by the Superintendent.

B. Rebate Audit

In November 2006 the examiner notified the Company and ESI of the examiner's plan to conduct a rebate audit as part of the examination process. From the onset of the notification ESI informed the examiner that rebate audits are conducted only between the months of February and November. From November until the third week in January the examiners and the Company worked tirelessly negotiating with ESI for a special provision allowing the examiners to conduct the audit before February because the field examination was scheduled to end in February of 2007. It was not until late January 2007 that ESI informed the examiner that its legal counsel and CIGNA's legal counsel were still negotiating on what information to release or make available to the examiner for the rebate audit.

In addition, in January 2007 the examiner requested bank statements for the DCS account into which ESI deposits all rebate payments. The Company provided the 2005 bank statement but failed to provide the 2003 and 2004 statements until late on Friday March 2, 2007, the last day of the field examination.

The examiner went to ESI headquarters in St. Louis, Missouri in February 2007 and performed a limited scope rebate audit. At ESI the examiner was provided a walk through of the rebate process and later with copies of contracts between ESI and a sample of manufacturers (pharmaceuticals) selected by the examiner. The examiner was not allowed to take any materials

or make copies of any documents for the workpapers. All materials were reviewed and relinquished to ESI at the end of the two-day audit.

The Company violated Section 243.2(e) of Department Regulation No. 152 by failing to make the prescription drug claim and financial records readily available and easily accessible to the Superintendent in accordance with Section 310 of the New York Insurance Law.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendation and comment contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to file a service agreement regarding agent licensing services performed by an affiliate. The Company filed and received approval of its amendment to the service agreement between the Company and its affiliate.
B	The Company violated Section 2112(a) of the New York Insurance Law by allowing agents, who were not appointed with the Company, to sell policies for the Company. The Company stated that it instituted new policies and procedures regarding new business implementation in late 2003. However, incidences of the violation were found during this examination. See Section 6A of this report.
C	The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commissions to agents who were not appointed with the Company. The Company stated that it took corrective actions in 2003. However, incidences of the violation were also found during the current examination. See Section 6A of this report.
D	The Company violated Section 243.2(b) of Department Regulation No. 152 by failing to maintain licenses, appointment records, and commission agreements for a number of agents. The Company stated that it implemented some corrective action in 2003. However, several incidences of the violation were found during this examination. See Section 6A of this report.
E	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer in correspondence that was sent to insureds, claimants and others. The Company stated that it implemented corrective actions in 2004.

Item	Description
F	The examiner recommended that the Company establish adequate controls to ensure that policyholder correspondence and service forms that are sent to insureds, claimants and others correctly identifies the insurer. The Company stated that it implemented some corrective action.
G	The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms that were not approved by the Superintendent, and, in certain instances, by using forms contrary to the approvals granted by the Superintendent. The Company filed and received approval for forms LN-210, LM-295a and TY-009175. (TY-009175 replaced form TY-006978(5/97)).
H	The Company violated Section 2108(a)(4) of the New York Insurance Law by paying fees to an unlicensed adjuster, LINA. The Company is exempt from the requirement of Section 2108(a)(4) pursuant to Section 2101(g)(1)(C) of the New York Insurance Law and OGC Opinion No. 05-05-23 dated May 20, 2005. The Company has an administrative service agreement with LINA.
I	The examiner commented that the Office of the New York State Attorney General commenced a lawsuit against Express Scripts, ESI Mail Pharmacy, the Company and one of its affiliates. The Company has been discharged from the litigation. Final details are not yet available as of the date of this report and the lawsuit has not yet been resolved.

9. SUMMARY AND CONCLUSIONS

Following are the violations, recommendation and comment contained in this report:

Item	Description	Page No(s).
A	The Company is not in compliance with Section 2.4(b) of its by-laws because it failed to maintain at least five board members on its Executive Committee.	8
B	The examiner recommends that the Company take greater care in the preparation of the Exhibit of Number of Policies in force for Accident and Health Insurance.	13
C	The Company violated Section 215.17(a) of Department Regulation No. 34 and Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office, a complete advertising file containing a specimen copy of every printed, published or prepared advertisement disseminated in this state.	18
D	The Company violated Section 2112(a) of the New York Insurance Law by failing to file certificates of appointment with the Superintendent in order to appoint insurance agents to represent it.	19
E	The Company violated Section 2114(a)(3) of the New York Insurance Law by paying commissions to agents not appointed with the Company.	19
F	The Company violated Section 243.2(b)(5) of Department Regulation No. 152 by failing to maintain licensing records so as to show clearly the dates of termination of licensees.	19
G	The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy applications as required by the Regulation.	20
H	The Company violated Section 243.2(d) of Department Regulation No. 152 for failing to maintain the prescription drug claims and financial records subject to examination by the superintendent.	23
I	The Company violated Section 243.2(e) of Department Regulation No. 152 by failing to make the prescription drug claim and financial records readily available and easily accessible to the Superintendent in accordance with Section 310 of the New York Insurance Law.	24

Respectfully submitted,

/s/
Flora Egbuchulam
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Flora Egbuchulam, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Flora Egbuchulam

Subscribed and sworn to before me

this_____ day of _____

APPOINTMENT NO. 22523

STATE OF NEW YORK

INSURANCE DEPARTMENT

*I, **HOWARD MILLS**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

FLORA EGBUCHULAM

as a proper person to examine into the affairs of the

CIGNA LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as she shall deem requisite.

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

this 29th day of June, 2006

HOWARD MILLS
Superintendent of Insurance

Superintendent