REPORT ON EXAMINATION

OF

UNITEDHEALTHCARE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2013

DATE OF REPORT	**MARCH 5, 2015**
EXAMINER	**CHRISTOPHER RUSHFORD, CFE**

TABLE OF CONTENTS

ITEM NO.		PAGE NO.
1.	Scope of the examination	3
2.	Description of the Company	5
	A. Management and controls	6
	B. Corporate governance	10
	C. Territory and plan of operation	12
	D. Growth of the Company	14
	E. Holding company system	15
	F. Intercompany transactions and agreements	17
	G. Accounts and records	21
	H. Internal controls	26
	I. Statutory and special deposits	27
	J. Fidelity bond and other insurance	27
	K. Reinsurance	27
	L. Pensions, stock ownership and insurance plans	29
3.	Financial statements	30
	A. Balance sheet	31
	B. Statement of revenue and expenses and capital and surplus	33
4.	Aggregate reserves and claims unpaid	35
5.	Subsequent events	35
6.	Compliance with prior report on examination	37
7.	Summary of comments and recommendations	40

NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

March 5, 2015

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 31118, dated March 21, 2014, attached hereto, I have made an examination into the condition and affairs of UnitedHealthcare Insurance Company of New York, a for-profit stock accident and health insurer licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2013. The following report is respectfully submitted thereon.

The examination was conducted at the home office of UnitedHealthcare Insurance Company of New York, located at 185 Asylum St., Hartford, CT. The Company's administrative office is located at 2950 Expressway Drive South, Islandia, NY.

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

Wherever the designation "UHIC" appears herein, it should be understood to indicate UnitedHealthcare Insurance Company, the immediate parent of UHIC NY.

Wherever the designation "UHG" appears herein, without qualification, it should be understood to indicate UnitedHealth Group Incorporated, a for-profit holding company and the Company's ultimate parent.

A concurrent examination was made of UnitedHealthcare of New York, Inc., an affiliated health maintenance organization, licensed pursuant to the provisions of Article 44 of the New York Public Health Law. A separate report has been submitted thereon.

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

1. SCOPE OF THE EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination of the Company was a financial examination, as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2014 Edition* (the "Handbook") and covered the five-year period January 1, 2009 through December 31, 2013. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, 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 examiner's assessment of risk in the Company's operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Company's current financial condition, as well as to identify prospective risks that may threaten the future solvency of UHIC NY.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and NAIC Annual Statement Instructions.

Information concerning the Company’s organizational structure, business approach and control environment was 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 Company was audited annually for the years 2009 through 2013 by the accounting firm of Deloitte & Touche, LLP (“D&T”). The Company received an unmodified opinion in each of those years. Certain audit work papers of D&T were reviewed and relied upon in conjunction with this examination. A review was also made of UHG’s Internal Audit function and Enterprise Risk Management program, as they relate to the Company.

A review was made of the Company’s compliance with the provisions of Insurance Regulation No. 118 (11 NYCRR 89), “Audited Financial Statements” which is based on the Model Audit Rule, as established by the NAIC. Furthermore, a review was made of compliance with Regulation 203 (11 NYCRR 82), “Enterprise Risk Management and Own Risk Solvency Assessment,” which establishes the requirement that the ultimate controlling parent of an insurance company develop an Enterprise Risk function to define and mitigate risks within the organization. The examiner also reviewed the corrective actions taken by the Company with respect to the financial comments and recommendations contained in the prior report on examination. The results of the examiner's review are contained in Item Six of this report.

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

2. DESCRIPTION OF THE COMPANY

The Company is a domestic insurer licensed to write accident and health insurance, as defined in Paragraphs 3(i) and 3(ii) of Subsection (a) of Section 1113 of the New York Insurance Law. The Company was originally incorporated on February 8, 1995, as The MetraHealth Insurance Company of New York, and commenced business on December 28, 1995. The Company is a wholly-owned subsidiary of UnitedHealthcare Insurance Co. (formerly known as The MetraHealth Insurance Company and Travelers Insurance Company of Illinois), a Connecticut stock corporation. The ultimate parent company is UnitedHealth Group, Inc, a publicly held company trading on the New York Stock Exchange.

As of December 31, 2013, UHIC NY reported total paid-in-capital of $300,000, comprised of 30,000 shares authorized, issued, and outstanding $10.00 par value common stock.

The Company paid the following cash dividends during the examination period to UHIC.

Year	Dividend Paid
2013	$ 65,000,000
2012	90,000,000
2011	0
2010	40,000,000
2009	0

The dividends were approved by the Department and recorded as a reduction to unassigned surplus in the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

A. Management and Controls

Pursuant to the Company's charter and by-laws, management of the Company is to be vested in a board of directors (the "Board") consisting of no less than thirteen and no more than twenty members. As of the examination date, the Board was comprised of thirteen members. The Board met at least four times during each calendar year for the period under examination.

As of December 31, 2013, the members of the Board and their principal business affiliations were as follows:

Name and Residence	Principal Business Affiliation
Timothy C. Archer Farmington, CT	Director, Finance - Northeast Region, United Healthcare Services, Inc.
James F. Bedard Glastonbury, CT	Chief Financial Officer of Northeast Region, United Healthcare Services, Inc.

Name and Residence	Principal Business Affiliation
William J. Golden Northport, NY	Chief Executive Officer of New York Health Plan, United Healthcare Services, Inc.
Carl A. Mattson Schenectady, NY	Vice President of the Empire Plan, United Healthcare Services, Inc.
Michael McGuire Wycoff, NJ	Chief Executive Officer of Health Plan, United Healthcare Services, Inc.
Thomas J. McGuire West Hartford, CT	Senior Deputy General Counsel, United Healthcare Services, Inc.
Sandra D. B. Nichols North Potomac, MD	Chief Medical Officer, United Healthcare Services, Inc.
Dennis P. O'Brien Cos Cob, CT	Network Management of the Northeast Region, United Healthcare Services, Inc.
Michael A. Santoro Trumbull, CT	Vice President of the Northeast Region, United Healthcare Services, Inc.
Allen J. Sorbo Palm Beach Gardens, FL	Chief Actuary, United Healthcare Services, Inc.
Michael J. Specht Setauket, NY	National Director of Implementation; Key Accounts, United Healthcare Services, Inc.
Randall H. Weinstock West Hartford, CT	Underwriting Vice President of the Northeast Region, United Healthcare Services, Inc.
Vincent J. Zuccarello Sandy Hook, CT	Vice President of Healthcare Economics, United Healthcare Services, Inc.

A review of the minutes of the attendance records at the Company's Board meetings held during the period under examination demonstrate the meetings were generally well attended with all members, with the exception of one, attending at least one-half of the meetings they were eligible to attend. The examiner noted certain reportable items related to the review of the minutes, which are as follows:

1. Director's Inadequate Attendance

A review of the minutes of the meetings of the Board indicated that one director failed to attend more than 50% of the meetings which he was eligible to attend during the examination period.

Members of the Board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that Board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the Board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

It is recommended that those Board members who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced.

2. Board Minute Inaccuracies

A review of the minutes of the meetings of the Board resulted in the identification of the following errors, which pertain to improper record keeping:

- In two instances, the minutes did not record the presence or absence of a Director. As a result, the examiner was unable to determine if the Director was present or absent during these meetings.

- During 2009, the minutes of the board listed the Directors who attended the meetings, but did not list those directors who were not in attendance.

- There was one individual recorded as present in the role of Director in four Board meetings during 2009, even though he was not an elected Director at that time.

- One individual was recorded in the meeting minutes as a Director during 2012, even though he had previously left the position.

- One Director was listed as present under "Other Present" in the 2011 and 2012 Board minutes. The category "Other Present" is reserved for non-board members. The individual should have been listed as a "Director Present."

It is recommended that the Company's board meeting minutes accurately reflect the attendance of the Board members. In addition, it is recommended that the Board minutes accurately reflect changes made to the Board membership.

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

Name	Title
William J. Golden	President
Robert W. Oberrender	Treasurer
Thomas J. McGuire	General Counsel
James F. Bedard	Chief Financial Officer
Carl A. Mattson	Vice President
Carmel Colica	Secretary
Michelle M. Huntley	Assistant Secretary
Juanita B. Luis	Assistant Secretary

It should be noted that certain members of the Board and senior management of UHIC NY are also members of the Board and senior management of other affiliated companies.

UHIC, the parent company of UHIC NY, has established an Audit Committee ("UHIC AC"), which has been designated as the Audit Committee for UHIC NY. To facilitate effective corporate governance, the UHIC AC coordinates certain activities with the Company's ultimate parent, UHG, and UHG's own Audit Committee. It is the responsibility of the UHIC AC to communicate significant unremediated deficiencies or material weaknesses in financial reporting internal controls to the UHG Audit Committee.

B. Corporate Governance

UHG is a publicly traded, diversified health company subject to the Sarbanes-Oxley Act of 2002 (“SOX”). Enterprise Risk Management (“ERM”) and Internal Audit are enterprise-wide functions; thus, unless otherwise noted, references to UHG are applicable to the Company.

UHG has adopted an ERM framework for addressing and mitigating risks, including prospective business risks. Exhibit M of the Handbook (*Understanding the Corporate Governance Structure*) was utilized by the examiner as guidance for assessing corporate governance. Overall, it was determined that the Company’s corporate governance structure is adequate, sets an appropriate “tone at the top”, supports a proactive approach to operational risk management, and contributes to an effective system of internal controls. It was found that the Company’s Board and key executives encourage integrity and ethical behavior throughout the Company, and that senior management promotes a corporate culture that acknowledges, understands and maintains an effective control environment.

The Company’s management has an adequate approach to identifying and mitigating risks across the organization, including prospective business risks. The Company deals proactively with its areas of risk, and its management is knowledgeable about mitigation strategies. Through risk discussions and other measures, the Company’s management discusses significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manages the business accordingly. The Company’s overall risk management process takes a proactive approach to identifying, tracking, and dealing with significant current and emerging risk factors.

UHG has an established Internal Audit Department ("IAD"), which is independent of management, to serve the UHG Audit Committee ("UHG AC"). The UHG AC is comprised entirely of external directors.

During the examination period, a significant amount of UHG's Internal Audit work was outsourced to, and therefore executed by, Ernst & Young ("E&Y"), an independent accounting firm. E&Y possesses experience consistent with industry norms, and all E&Y manager-level and above resources maintain applicable industry certifications. The IAD directs and supervises all Internal Audit work performed by E&Y. The IAD, with the outsourced assistance from E&Y, reviews and tests financial and operational controls and processes established by management to ensure compliance with laws, regulations and UHG policies. The scope of the IAD's program is coordinated with UHG's independent certified public accountants to ensure adequate coverage and maximum efficiency.

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

The examiner noted the following reportable item related to the review of the Corporate Governance:

<u>UHIC NY Audit Committee Independence</u>

Part 89.12 of Insurance Regulation No. 118 (11 NYCRR 89.12) states in part:

> "…In order to be considered independent for purposes of this section, a member of the audit committee may not… be an affiliated person of the company or any subsidiary thereof…"

As noted earlier in this report, an Audit Committee was established at the corporate level. Under Part 89.1 of Insurance Regulation No. 118 (11 NYCRR 89.1), the audit committee for a SOX-compliant Company must be independent, as defined in the SOX.

Although Part 89.12 of the aforementioned Regulation permits an exemption from the independence requirement if the "SOX Compliant Company" is an authorized insurer as defined in New York Insurance Law Section 107, the Company's ultimate parent, UHG, is not an insurance entity, and thus, the circumstances do not fit the exemption. As a result, the UHIC Audit Committee is deemed not to be independent and is in violation of the cited Regulation.

It is noted that Part 89.12 of Insurance Regulation No. 118 (11 NYCRR 89.12) includes a clause permitting insurers to request a hardship waiver to the requirement that the Audit Committee be independent, as defined in that regulation. The Plan submitted such a request for waiver on March 4, 2013.

C. Territory and Plan of Operation

UHIC NY is licensed to sell accident and health insurance in the State of New York as defined in paragraph 3(i) and 3(ii) of Section 1113(a) of the New York Insurance Law and primarily issues group accident and health insurance contracts to employers and associations. UHIC NY is licensed in New York under Article 42 of the New York Insurance Law.

The Company conducted business through four UHG business segments: UnitedHealthcare Employer & Individual, UnitedHealthcare Medicare & Retirement, UnitedHealthcare Community & State, and Empire Behavioral Health Plan, which was marketed through Optum Health.

The Company serves as a plan sponsor, offering Medicare Advantage and Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare and Medicaid Services ("CMS"). Under the Medicare Part D program, there are seven separate elements of payment received by the Company during the plan year; these payment elements are CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share and CMS coverage gap discount program.

The Company underwrites a significant pharmacy, mental health and substance abuse insurance policy for the employees of the State of New York ("Empire Plan"). Effective January 1, 2013, the Empire Plan converted from a fully insured plan to an administrative service contract with the Company. In addition, the Empire Plan did not renew the pharmacy portion of the contract with the Company beyond December 31, 2013. See item "B" in the "Subsequent Events" section for additional information.

On April 13, 2007, UHG entered into an agreement to extend and expand its relationship with the AARP through December 31, 2014. The agreement was expanded to give UHG the right to use the AARP brand on Medicare Advantage offerings and to extend UHG's arrangement to use the AARP brand on UHG Medicare Supplement products and services and Medicare Part D offerings. During 2014, UHG signed a new long term agreement with AARP that extended the relationship through December 31, 2020. See item "C" in the "Subsequent Events" section for additional information.

The following schedule shows direct premiums written in the State of New York compared to the total of direct premiums written by UHIC NY in all states during the period under examination:

Year	New York	Total Direct Written Premiums	Percentage
2013	$4,029,689,159	$4,035,272,944	99.86%
2012	$6,703,011,588	$6,707,998,046	99.93%
2011	$6,518,745,238	$6,518,745,238	100.00%
2010	$5,907,769,231	$5,907,769,231	100.00%
2009	$5,516,852,041	$5,516,852,041	100.00%

D. Growth of the Company

As of December 31, 2013, the Company had 2,410,594 members. The following schedule shows the membership increase/decrease by number and percentage during the examination period:

	2013	2012	2011	2010	2009
Members	2,410,594	2,179,680	1,973,672	1,791,287	1,773,237
Growth	10.59%	10.44%	10.18%	1.02%	(0.81%)

The following schedule, obtained from information contained in annual statements for the period currently under review, reflects the Company's results:

Year	Net Premiums Written	Net Paid Health Claims	Net Income	Policyholders Surplus	Ratio of Net Premiums Written to Surplus
2013	$1,557,944,958	$1,238,122,574	$101,645,225	$615,759,059	2.53
2012	1,904,269,099	1,603,295,791	93,712,422	570,997,251	3.33
2011	1,844,773,919	1,502,334,295	86,098,763	572,674,994	3.22
2010	1,611,303,692	1,347,927,744	89,722,526	489,893,488	3.29
2009	1,519,692,953	1,314,716,614	35,752,981	436,954,209	3.48

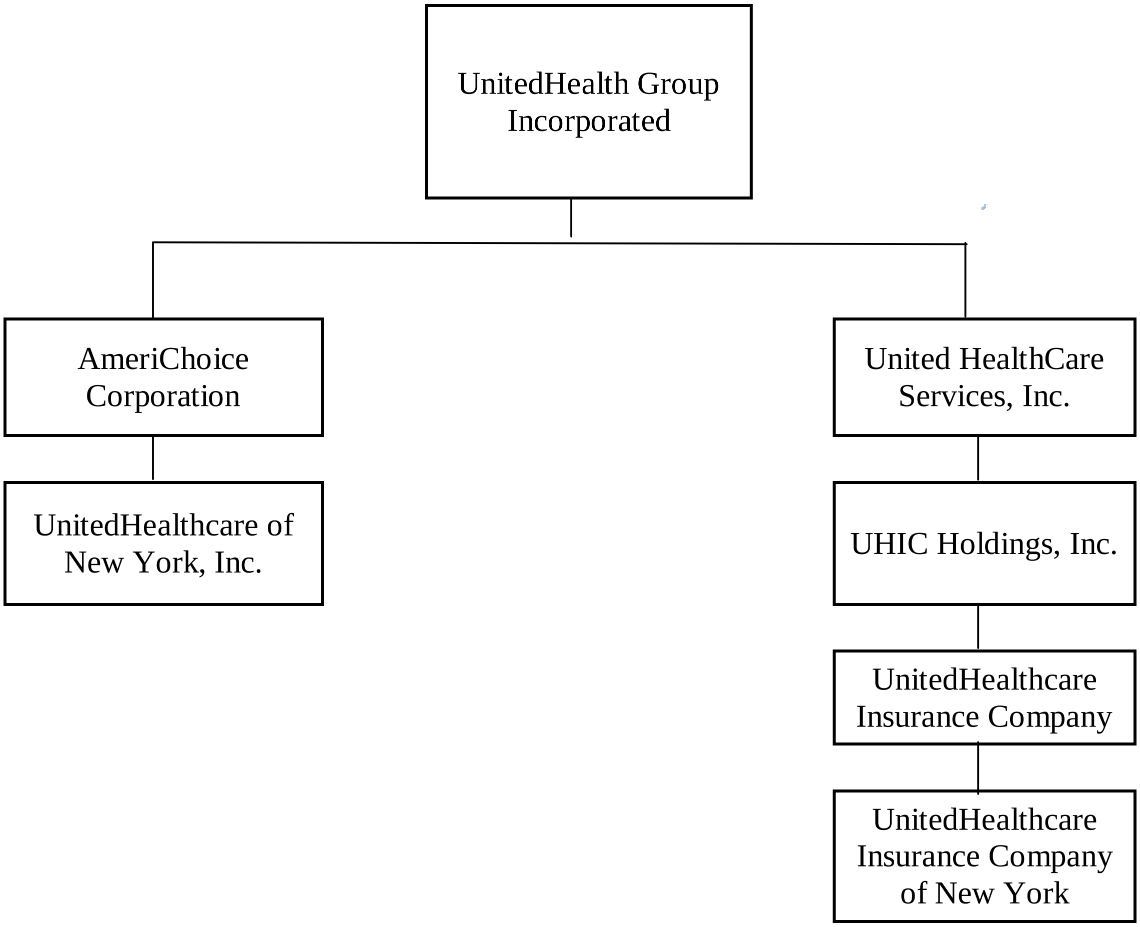
The Company's authorized control level Risk-Based Capital ("RBC") was $6,546,412 as of December 31, 2013. Its total adjusted capital was $615,759,059, yielding an RBC ratio of 9,406.1% for 2013.

E. Holding Company System

UHIC NY is a wholly-owned subsidiary of UHIC, and its ultimate parent is UHG, a publicly traded corporation domiciled in the State of Minnesota.

As a member of a holding company system, UHIC NY is required to file registration statements pursuant to the requirements of Section 1503 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 statutes were reviewed, and no exceptions were noted.

The following is an excerpt of the organizational chart of the Company's holding company system as of December 31, 2013:



The following is a summary of UHIC NY's relationship with several of the affiliates shown above:

- UnitedHealth Group Incorporated is a Minnesota corporation and the ultimate parent of UHIC, UHIC NY, United HealthCare Services, Inc. ("UHS"), and over one hundred and fifty (150) other affiliated companies.

- UHS is a management services company within UHG that provides administrative, financial, management, accounting, underwriting, marketing, legal, medical provider, member services, medical management, agency development, employee management and benefit, information systems, and other general and administrative services to affiliated companies within UHG's holding company system. Most of the directors and officers of UHIC NY and various UHG companies are considered employees of UHS rather than the individual insurers under UHG's holding company system.

F. Intercompany Transactions and Agreements

The Company is party to numerous intercompany agreements with its affiliates, which are subject to the Department's review and approval. These agreements involve activities such as administrative services, cash management, investment management, tax allocation, revolving credit, pharmacy benefits management, and reinsurance.

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

Below is a brief summary of some of the key agreements.

Management and Administrative Services Agreements

Effective January 1, 2014, the Company entered into a Management Services Agreement with UHS, which replaced and superseded its June 1, 2002 Service Agreement with UHS. Under the Management Services Agreement, UHS provides management and operational support to UHIC NY that includes but is not limited to underwriting, claims processing, financial management and accounting. The Management Services Agreement was submitted for review to the Department on May 7, 2013, and was approved on October 28, 2013.

Direct expenses not included in the management and administrative agreements, such as broker commissions, regulator exam fees, and premium taxes are paid by UHS on the behalf of the Company. UHS is reimbursed by the Company for these direct expenses through the intercompany settlement process.

UHS' subsidiaries and divisions provide various services to enrollees of the Company during the year. OptumHealth, a division of UHS, provides services including, but not limited to, integrated personal health management solutions, such as disease management, treatment decision support and wellness services, including a 24-hour call-in service, as well as access to a network of transplant providers. The agreement was submitted for review to the Department on January 8, 2009 and was approved on July 20, 2009. Health Allies, Inc. provides discount program services. The agreement was submitted for review to the Department on February 24, 2010 and was approved on September 1, 2010. OptumHealth Care Solutions, Inc. provides chiropractic and physical therapy services. The agreement was submitted for review on January 21, 2010 and was approved on August 24, 2010. The first amendment was submitted for review to the Department on May 25, 2011 and was approved on June 7, 2011. Spectera, Inc. provides administrative services related to vision benefit management and claims processing. The agreement was submitted to the Department on November 5, 2013 and was approved on November 19, 2013. United Behavioral Health, Inc. provides mental health and substance abuse services. The agreement was submitted for review to the Department on February 28, 2012 and was approved on September 20, 2012.

The Company contracts with OptumRx, Inc. ("OptumRx") to provide personal health product catalogues for eligible members who earn additional benefits. The catalogues show the healthcare products and benefit credits needed to redeem the respective products. OptumRx mails the appropriate personal health product catalogues to the Company's members and manages the personal health products credit balance. Fees related to this agreement are calculated on a per member per month ("PMPM") basis. The agreement and all related amendments and addendums were submitted for review to the Department on December 22, 2009 and were approved on January 26, 2010.

The Company has an agreement with OptumInsight, Inc., an affiliate of the Company, for services that lead up to and include the prevention and recovery of medical expense (benefit) overpayments. Service fees may be either a percentage of every recovery that is retained by OptumInsight, Inc. or a capitated service fee that is charged to the Company on a PMPM basis. The agreement was submitted for review to the Department on May 24, 2011 and was approved on January 23, 2012.

Pharmacy Benefits Management

Effective January 1, 2013, the Company entered into a pharmaceutical benefits management ("PBM") agreement with an affiliated entity, OptumRx. Pursuant to the Agreement, OptumRx provides UHIC NY with core prescription drug benefit services and mail order pharmacy services. Under the core prescription drug benefit services, OptumRx establishes and maintains a network of pharmacies to service the benefit plans, provide claims processing services, benefits administration and support, marketing and sales support, account management services, rebate administration, clinical services and finance and analytical support services. Under the mail order pharmacy services, OptumRx provides UHIC NY with mail order network prescription services. UHIC NY remains ultimately responsible for the pharmacy benefit administration services provided to its members. Fees related to the PBM agreement are calculated on a per-claim basis. The PBM agreement was approved by the Department on October 15, 2012 and replaced the previous agreement with Medco Health Solutions, Inc.

Revolving Credit Agreement

The Company holds a $225,000,000 subordinated revolving credit agreement with UHG at an interest rate of LIBOR plus a margin of 0.50%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. The credit agreement shall continue until terminated by either party with 60 days notice. There were no amounts outstanding under the credit agreement as of December 31, 2013. The subordinated revolving credit agreement was submitted for review to the Department on April 11, 2012 and was approved on May 21, 2012. This was also submitted to the Department of Health on April 11, 2012 and approved on September 20, 2012.

Tax Sharing Agreement

On October 2, 1995, the Company entered into a tax sharing agreement with UHG and as a result, is included in a consolidated federal income tax return with UHG. Federal income taxes are paid to or refunded by UHG pursuant to the terms of a tax sharing agreement, under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent that losses can be utilized in the consolidated federal income tax return of UHG. UHG currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The tax sharing agreement was approved by the Department on February 7, 1996.

Reinsurance

See Section K "Reinsurance" for information related to affiliated reinsurance agreements.

Surplus Notes

On September 24, 2009, with the approval of the Department, the Company paid off a surplus note issued to the Company's parent, UHIC, in the amount of $12,300,000 plus accrued interest of approximately $10,508,000.

G. Accounts and Records

Evaluation of Controls in Information Systems

The Company's Information Systems ("IS") applies to UHG and all of its wholly-owned subsidiaries. The IS function is managed broadly and includes the operations of UHIC NY. UHG is responsible for maintaining the overall technology infrastructure utilized for data processing by the business segments within the Company.

The IS portion of the examination was performed in accordance with the Handbook, utilizing the Exhibit C (*Evaluation of Controls in Information Technology*) approach. The examiner's review of the IS controls included: IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks; personal computers; and mainframe controls.

The examiner evaluated the IS internal control testing performed by UHG's SOX function, the IAD and its independent auditors, D&T, and performed a review of end user computing and IS outsourcing controls. As a result of the procedures performed, the examination team concluded that Information Technology ("IT") general controls and general application controls were functioning as management intended and that an effective system of internal controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company.

However, the examiner noted certain reportable items related to the review of IS controls, which are as follows:

1. <u>Data Classification</u>

There was a carry-forward recommendation from an examination conducted by the Connecticut Department of Insurance, performed as of December 31, 2011. During discussions with management, the Connecticut IT examination team noted that UHG does not have an effectively designed method for identifying current data owners for all information assets. In addition, there is no established control to monitor the process of data classification to ensure that appropriate classification and labeling of information assets is performed. Per UHG's policy, information assets (including data extracts) are required to have a "Designated Information Owner", and should be classified and labeled as either "Protected Information, Confidential Information or Public Information." As a result, UHG may not be in compliance with its policies regarding data classification. Due to the lack of supporting processes, the extent of this lack of compliance cannot be determined. However, the lack of supporting processes also indicates that sufficient controls are not in place to provide effective monitoring of policy compliance.

UHG's policy documentation provides guidance regarding the organization's approach to data classification. Specifically, policy control standard 01.1.03.05 states the following:

> "*UnitedHealth Group information technology systems and business areas must have a designated Information Owner, who has been assigned management responsibility for controlling the production, maintenance, use, and access to the information asset or information technology system they own. This responsibility includes the verification of data extracts containing Confidential Information and/or Protected Information.*"

Also, policy sections 13.1.01 states the following:

> "*UnitedHealth Group data and data entrusted to UnitedHealth Group should be identified and classified by the Information Owner as one of the following three data classification levels: Protected Information, Confidential Information or Public Information*"

Finally, policy section 13.1.02 states the following:

> *"All UnitedHealth Group data and data entrusted to UnitedHealth Group is labeled to indicate its Data Classification Level, which alerts employees and contractors of the appropriate security requirements for such data."*

The recommendation from the Connecticut report on examination stated:

> "Current UHG policy documentation provides the basis for an effective information classification program. Such a program can then be used to support other information security and privacy efforts (such as data loss prevention, compliance reporting, access control architecture, etc.). It is recommended that UHG take appropriate steps to align operational practices with existing policies, including the introduction of processes and technologies that can help ensure policy compliance."

Update from the 2012 Texas Examination

As a result of this exception from the prior 2011 IT examination and the Company's response, the IT examination team performed follow-up procedures during the 2012 Texas examination that included a review of UHG's policies to determine whether any changes had been implemented related to this control. In addition, the IT examination team met with management to discuss this control and associated procedures. During this session, the IT examination team confirmed that the Control Standards included in the policy listed above are current and accurate. Management also stated that the implementation of this control was an ongoing effort and was "approximately 85 - 90% complete". Additional integration and development will include the registration of Applications, linkages to release management and disaster recovery, and a connection with the UHG's Mergers and Acquisitions ("M&A") processes.

As a result of inquiry and review of prior examination procedures and workpapers, the IT examination team concluded that management has made progress related to the implementation of this control, but it is not yet operating effectively. As a result, the Company remains in a noncompliant state with respect to its internal data classification policy. Therefore, a relevant exception was noted, consistent with the exception documented in the prior examination file.

Update from the current 2013 New York Department of Financial Services Examination

The IT examination team performed follow-up procedures during this examination that included a review of UHG's policies to determine whether any changes had been implemented related to this control. In addition, the IT examination team met with management to discuss this control and associated procedures. Management stated that the remaining 10-15% is related to new M&A integrations into the UHG environment and includes segments previously supported outside of the scope of UHG IT. These integration activities have also implemented processes to ensure data is appropriately populated into the Architecture and Strategy Knowledgebase ("ASK") as part of standard integration activities. The ASK database is an internally-developed repository of system and data management information. It includes key descriptive information regarding the Company's data assets, including details regarding ownership, classification and location.

As noted during the prior IT examinations, UHG's policy documentation provides the basis for an effective information classification program. Such a program can be used to support other information security and privacy efforts (such as data loss prevention, compliance reporting, access control architecture, etc.).

As a result, the IT examination team concluded that management has made additional progress related to the implementation of this control, but it is not yet operating effectively. Therefore, the Company remains in a noncompliant state with respect to its internal data classification policy. Therefore, a relevant exception was noted.

It is recommended that management:

a) continue to make progress related to aligning operational Information Technology practices with existing policies, including the introduction of processes and technologies that can help ensure policy compliance; and

b) incorporate a monitoring component into the policy to ensure that the ASK database remains up to date and to ensure that any new data elements (i.e., from M&A activity or enhancements to existing applications) are incorporated into the database timely to ensure policy compliance.

2. <u>End User Computing</u>

The Company's approach to managing End User Computing ("EUC") files, such as spreadsheets, is incomplete and is not implemented in a manner that ensures that consistent and effective controls are applied to these files.

The Company's procedures for managing risks associated with EUCs include: EUC control approach documentation (i.e., guidelines); an inventory of identified EUC files; an internally-developed EUC tool; and training for internal personnel, including process owners that are responsible for evaluating EUC risks.

The EUC Tool, in addition to capturing each process owner's assigned EUC files, also lists EUC risks and recommends corresponding EUC controls. The EUC guidelines and tool, developed and managed by Internal Audit, are being used by process owners to determine significant EUCs and document their assessment of risks and conclusions regarding the associated controls to be applied to the EUCs.

The IT examination team noted several weaknesses in the current approach. Specifically:

- The Company has not implemented a formal policy regarding EUC risk management.
- The current process (i.e., establishing the guidelines and tool used to determine significant EUCs) is within the sphere of responsibility of the Company's Internal Audit function, as opposed to being the responsibility of Company management.
- Process owners do not consistently implement the controls recommended by the EUC tool, and the rationale for deviating from these recommended controls is not consistently evaluated, documented and/or approved by qualified, independent internal parties.

It is recommended that the Company extend its current approach for managing EUC risks by implementing a formal policy regarding EUC management, as well as procedures to support an effective approach for evaluating the risk and control conclusions reached by process owners. The EUC policy, procedures and related tool(s) should be the responsibility of the Company's management and not Internal Audit. These procedures, supported by the EUC tool, should focus on applying IT-type controls (security, change management, backup, etc.) to EUC files. Deviations from controls recommended by the EUC tool should be investigated and approved by qualified internal management resources to ensure that they are appropriate. Deviations from recommended controls should also be reviewed on a periodic basis.

H. Internal Controls

The NAIC risk-focused approach to financial examinations relies on the review of mitigating controls applicable to the inherent risks of the companies being examined. In the case of UHIC NY, the mitigating controls are documented in "eGRC", an application that, among other functions, documents the internal controls applicable to UHIC NY, as well as the testing that was performed on those controls.

The examiner reviewed and evaluated a sample of UHIC NY's internal controls and related testing thereon and identified some areas where improvement is suggested in the current structure and/or design. The independent financial auditor's report did not note any internal control material weaknesses, and none of the examiner's identified improvements led to material weaknesses or to inaccuracies in the filed financial statements.

I. Statutory and Special Deposits

As of December 31, 2013, the Company had bonds with a book value of $314,853 and a fair market value of $319,209 on deposit with New York State.

J. Fidelity Bond and Other Insurance

At December 31, 2013, the Company was covered by a financial institution bond naming UHG and all of its subsidiaries as the insured. This coverage was sufficient to meet minimum computed coverage amounts suggested by the NAIC. The Company also maintains other customary insurance policies, including but not limited to automobile, property and equipment, general liability, workers' compensation and directors' and officers' liability.

K. Reinsurance

The Company participates in various reinsurance agreements in order to limit potential losses that may arise from catastrophic events that cause unfavorable underwriting results by reinsuring certain levels of such risk with affiliated and other nonaffiliated reinsurers. The Company remains primarily liable as the direct insurer on all risks reinsured.

The reinsurance agreements with UHIC and Canada Life Assurance Company ("Canada Life") are the two most significant reinsurance arrangements, which account for approximately 99.8 percent of the total ceded premiums for 2013.

Effective January 1, 1998, the Company entered into a quota share reinsurance agreement whereby the Company cedes 50% of all group health insurance contracts, net of unaffiliated reinsurance and on a funds-withheld basis, to UHIC. The following table shows the underwriting results for UHIC NY's Quota-Share Agreement with UHIC during the period January 2009 through December 2013:

Year	Ceded Premiums	Ceded Claims	Ratios
2013	$ 1,499,523,405	$1,236,571,084	82.46%
2012	1,924,018,554	1,607,090,911	83.53%
2011	1,824,728,789	1,495,887,068	81.98%
2010	1,636,254,440	1,359,033,845	83.06%
2009	1,518,838,849	1,314,711,352	86.56%

Effective January 1, 2008, the Company entered into a reinsurance agreement with Canada Life Assurance Company ("Canada Life") for 70% of coverage written under the Empire Plan's medical and pharmacy contracts. For the medical and pharmacy plans combined, premiums of approximately $975,319,000 were ceded to Canada Life for the year ended December 31, 2013. Total hospital and medical costs ceded totaled approximately $981,560,000 for the year ended December 31, 2013. Total general administrative expenses and claim adjustment expense ("CAE") ceded related to Empire Plan's medical and pharmacy totaled approximately $71,899,000 for the year ended December 31, 2013.

As discussed in Section 2, "Territory and Plan of Operation" section above, the Empire Plan's medical plan converted from fully insured to an administrative service contract with an affiliated entity, effective January 1, 2013, and as a result, the Canada Life medical plan reinsurance agreement was terminated, effective January 1, 2013. In addition, the Empire Plan did not renew the pharmacy portion of the contract with the Company beyond December 31, 2013. As a result, the pharmacy reinsurance agreement with Canada Life was terminated, effective January 1, 2014.

Funds Held under Reinsurance Treaties with Unauthorized Reinsurers

UHIC is deemed an unauthorized reinsurer by the Department. As a result, a portion of the premiums due to UHIC are not paid by the Company, but are withheld as per the reinsurance agreement.

On December 20, 2013, UHIC was notified by the Department that it has met the requirements of Section 125.4(h)(7) of Insurance Regulation No. 20, and so was approved as a Certified Reinsurer eligible for a Secure-3 rating allowing for a reduction of 80% of funds held under reinsurance treaties with unauthorized reinsurers, effective July 1, 2013. UHIC is certified to reinsure and post reduced collateral for life insurance, accident & health insurance and workers' compensation insurance that it is authorized to engage in by its domiciliary regulator.

Due to the timing of the approval, UHIC has elected to forgo the collateral reduction for the 2013 year end reporting cycle since doing so would have resulted in an unintended adverse economic result. The reduction in collateral will begin first quarter 2014.

L. Pensions, Stock Ownership and Insurance Plans

The Company has no defined benefit plans, defined contribution plans, multi-employer plans, consolidated/holding company plans, post-employment benefits, and compensated absences plans and is not impacted by the Medicare Modernization Act on post-retirement benefits, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement.

3. **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, and 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 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 December 31, 2013 filed annual statement.

Independent Accountants

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

D&T 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

A. Balance Sheet

Assets	Examination
Bonds	$ 1,064,102,136
Preferred stocks	1,985,940
Cash and short-term investments	139,956,848
Receivable for securities	6,845
Investment income due and accrued	8,547,349
Uncollected premiums and agents' balances in the course of collection	101,567,118
Amounts recoverable from reinsurers	272,287,864
Other amounts receivable under reinsurance contracts	30,782,758
Amounts receivable relating to uninsured plans	223,165,678
Net deferred tax asset	16,188,024
Health care and other amounts receivable	87,957,862
Aggregate write-ins for other than invested assets	36,498,533
Total assets	$ 1,983,046,955

Liabilities	Examination
Claims unpaid	$ 214,366,998
Accrued medical incentive pools and bonus amounts	336,455
Unpaid claims adjustment expenses	2,109,371
Aggregate health policy reserves	250,664,512
Aggregate health claim reserves	17,350,731
Premiums received in advance	12,132,448
General expenses due or accrued	24,077,659
Current federal and foreign income tax payable and interest thereon	7,567,784
Ceded reinsurance premiums payable	528,132,279
Amounts withheld or retained for the account of others	483
Remittance and items not allocated	237,956
Amounts due to parent, subsidiaries and affiliates	96,600,745
Payable for securities	13,144,647
Funds held reinsurance treaties with unauthorized reinsurers	161,214,073
Net adjustment in assets and liabilities due to foreign exchange rate	3,415
Liability for amounts held under uninsured plans	32,268,026
Aggregate write-ins for other liabilities	7,080,314
Total liabilities	$ 1,367,287,896
Capital and surplus	
Common capital stock	300,000
Gross paid-in and contributed surplus	60,735,000
Unassigned funds (surplus)	554,724,059
Total capital and surplus	$ 615,759,059
Total liabilities, capital and surplus	$ 1,983,046,955

Note 1: The Internal Revenue Service has not conducted any audits of the income tax returns filed on behalf of the Company through tax year 2013. The examiner is unaware of any potential exposure of the Company to any tax assessments, and no liability has been established herein relative to such contingency.

Note 2: UHIC NY files its tax returns on a consolidated basis with other affiliated companies within the UHG holding company.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased $193,251,954 during the five-year examination period, January 1, 2009 through December 31, 2013, detailed as follows:

Revenue				
Net premium income	$	8,437,984,620		
Change in unearned premium reserves and reserve for rate credits		(52,041,549)		
Aggregate write-ins for revenues		82,826		
Total revenues			$	8,386,025,897
Hospital and Medical Expenses				
Hospital/medical benefits	$	15,869,375,064		
Other professional services		137,127,382		
Prescription drugs		8,814,887,851		
Aggregate write-ins for other hospital and Medical		2,453,342		
Incentive pools, withhold adjustments and bonus amounts		1,848,933		
Net reinsurance recoveries		(17,819,295,558)		
Total medical and hospital expenses		7,006,397,014		
Claims adjustment expenses		260,252,390		
General administrative expenses		682,441,952		
Increase in reserves for life and accident and health contracts		868,894		
Total underwriting deductions				7,949,960,250
Net underwriting gain			$	436,065,647
Net investment income earned				130,744,348
Net realized capital gains				23,224,549
Net gain from agents' or premium balances charged off				(1,981,394)
Aggregate write-ins for other income or expenses				(391,025)
Net income before federal income taxes				587,662,215
Federal and foreign income taxes incurred				180,730,297
Net income			$	406,931,918

Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus per report on examination as of December 31, 2008			$ 422,507,105
Net income	$ 406,931,918		
Change in net unrealized capital gains		$ 6,548	
Change in net unrealized foreign exchange capital gain (losses)		3,415	
Change in net deferred income tax	9,885,894		
Change in nonadmitted assets		26,050,592	
Change in surplus notes		12,300,000	
Dividends to stockholders		195,000,000	
Aggregate write-ins for gains in surplus	9,794,697		
Net change in capital and surplus			193,251,954
Capital and surplus per report on examination as of December 31, 2013			$ 615,759,059

4. AGGREGATE RESERVES AND CLAIMS UNPAID

The examination liabilities of $482,382,241 for the aggregate reserves and claims unpaid accounts are the same as the amounts reported by UHIC NY in its 2013 filed annual statement.

The examination analysis of the aggregate reserves and claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in UHIC NY's internal records and in its filed annual statements as verified during the examination. 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 UHIC NY's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2013.

5. SUBSEQUENT EVENTS

A. Affordable Care Act

On January 1, 2014, the Company became subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). This annual fee will be allocated to individual health insurers based on the ratio of the amount of an entity's net premiums written during the preceding calendar year to the amount of the health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014.

As of December 31, 2013, the Company had written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates the Company's portion of the annual health insurance industry fee, payable on September 30, 2014, to be $51,573,000.

B. State of New York Empire Plan

Effective January 1, 2014, the State of New York Empire Plan did not renew its mental health and substance abuse contracts with the Company, although the Company was retained as the Third Party Administrator. While the Company has determined that the net effect of this termination on the financial condition and results of operations of the Company is not material, there were significant reductions to revenue, hospital and medical benefits, and general expenses in 2014.

C. AARP Contract

During 2014, the Company signed a new long term agreement with AARP that extended the relationship through December 31, 2020, giving the Company an exclusive right to use the AARP brand on the Company's Medicare Advantage and Medicare Part D offerings until December 31, 2020, subject to certain limited exclusions.

D. Dividend to Parent

The Company requested approval from the Department on November 26, 2013 to pay an extraordinary dividend $60,000,000 to the Company's Parent company, UHIC. The dividend was approved on December 24, 2013 and paid on January 28, 2014.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2008 contained the following ten (10) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
	Enterprise Risk Management Function	
1.	The Company has informed the Department that subsequent to the examination date, it implemented projects that address some of the above items. As part of the risk-focused surveillance approach, as described in the Handbook, the Department will follow up on key Company initiatives.	9
	The Company has complied with this recommendation except the Company still does not have a formally documented ERM policies and/or procedure manual. See item C in the "Summary of Comments and Recommendations" section for more information.	
	General Auditor Compensation Approval	
2.	It is recommended that the AC's review and approval of the General Auditor's compensation be explicitly stated in the minutes going forward.	10
	The Company has complied with this recommendation.	
	Quality Assurance Review	
3.	It is recommended that in accordance with IIA Standard 1300, UHG's IAD implement a QAR process, including a self-assessment by the IAD, followed by an external review performed by a qualified third party.	10
	The Company has complied with this recommendation.	

ITEM NO.		PAGE NO.
	New York Legal Entities Audit Committee Self-Assessment	
4.	It is recommended that the Company's (legal entity) Audit Committee perform a periodic self-assessment, with results documented and communicated to the UHIC NY board.	11
	The Company has complied with this recommendation.	
	Company Board of Directors Self-Assessment	
5.	It is recommended that the Company's BOD perform a periodic self-assessment and that the results of such self-assessment be documented.	11
	The Company has complied with this recommendation.	
	Enhancements to Internal Audit Methodology Documentation	
6.	It is recommended that the IAD consider modifying its written methodology/guidelines to more accurately reflect the comprehensive methodologies, processes and guidelines it has in place.	11
	The Company has complied with this recommendation.	
	The Company's Compliance Testing	
7.	It is recommended that the IAD continue to design and document its test plan to ensure that the Company is regularly scoped into its compliance testing, relative to the laws and regulations applicable to the Company. Consideration should be given to the (specific) frequency of such testing.	12
	The Company has complied with this recommendation.	

ITEM NO.		**PAGE NO.**
	Improper Reliance on Service Auditor's Report	
8.	It is recommended that UHG modify its control design to include a thorough review and sign-off regarding any service auditor reports upon which it places reliance. While a tactical issue exists relative to whether QWEST provides adequate controls, the larger issue is the design of the control and the misplaced reliance on controls that were clearly scoped out of the SAS 70 report.	19
	The Company has complied with this recommendation.	
	Windows Server Password Controls	
9.	It is recommended that UHG modify its baseline security standards to enforce strong passwords without exemption, based upon Microsoft's recommendations and other widely accepted best practices.	20
	The Company has complied with this recommendation.	
	Responses to Initial Information Gathering	
10.	It is recommended that UHIC NY update its set of IT questionnaire responses. Such updating of responses may increase the efficiency of future examinations.	19
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management and Controls	
i.	It is recommended that those Board members who do not fulfill their fiduciary responsibility to the Company by attending the majority of board meetings, resign or be replaced.	8
ii.	It is recommended that the Company's board meeting minutes accurately reflect the attendance of the board members. In addition, it is recommended that the board minutes accurately reflect changes made to the board membership.	9
B.	Corporate Governance	
	It is noted that Part 89.12 of Insurance Regulation No. 118 (11 NYCRR 89.12) includes a clause permitting insurers to request a hardship waiver to the requirement that the Audit Committee be independent, as defined in that regulation. The Plan submitted such a request for waiver on March 4, 2013.	12
C.	Information Systems	
i.	It is recommended that management: a) continue to make progress related to aligning operational Information Technology practices with existing policies, including the introduction of processes and technologies that can help ensure policy compliance; and b) incorporate a monitoring component into the policy to ensure that the ASK database remains up to date and to ensure that any new data elements (i.e., from M&A activity or enhancements to existing applications) are incorporated into the database timely to ensure policy compliance.	25

ITEM **PAGE NO.**

ii.. It is recommended that the Company extend its current approach for managing EUC risks by implementing a formal policy regarding EUC management, as well as procedures to support an effective approach for evaluating the risk and control conclusions reached by process owners. The EUC policy, procedures and related tool(s) should be the responsibility of the Company's management and not Internal Audit. These procedures, supported by the EUC tool, should focus on applying IT-type controls (security, change management, backup, etc.) to EUC files. Deviations from controls recommended by the EUC tool should be investigated and approved by qualified internal management resources to ensure that they are appropriate. Deviations from recommended controls should also be reviewed on a periodic basis. 26

Respectfully submitted,

_________/S/_______________
Christopher Rushford, CFE

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

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

___________/S/______________
Christopher Rushford, CFE

Subscribed and sworn to before me
this _____ of _____________ 2015.

***APPOINTMENT NO.* 31118**

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:*

Risk and Regulatory Consulting, LLC

as a proper person to examine the affairs of

UnitedHealthcare 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 they 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 21st day of March, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By: ______________________

Lisette Johnson
Bureau Chief
Health Bureau