

**REPORT ON EXAMINATION**

**OF**

**OXFORD HEALTH INSURANCE, INC.**

**AS OF**

**DECEMBER 31, 2012**

**DATE OF REPORT**

**MAY 29, 2014**

**EXAMINER**

**CHRISTOPHER RUSHFORD, CFE**

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

May 29, 2014

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 30875, dated September 4, 2012, attached hereto, we have made an examination into the condition and affairs of Oxford Health Insurance, Inc., a for-profit stock company licensed pursuant to Article 42 of the New York Insurance Law as of December 31, 2012. The following report is respectfully submitted thereon.

The examination was conducted at the office of Oxford Health Insurance, Inc., located at 48 Monroe Turnpike, Trumbull, CT.

Wherever the designations the “Company” or “OHI” appear herein, without qualification, they should be understood to indicate Oxford Health Insurance, Inc.

Wherever the designation “OHP-NY” appears herein, without qualification, it should be understood to indicate Oxford Health Plans (NY), Inc., a for-profit individual practice association model health maintenance organization licensed pursuant to the provisions of Article 44 of the New York Public Health Law. A concurrent examination was made of OHP-NY and a separate report thereon has been submitted.

Wherever the designation “Oxford” appears herein, without qualification, it should be understood to indicate Oxford Health Plans, LLC, a Delaware corporation, the parent of OHP-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 ultimate parent of OHP-NY and OHI.

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, 2007. This examination of the Company was a financial examination, as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2012 Edition* (the “Handbook”) and covered the five-year period January 1, 2008 through December 31, 2012. The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2012 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 identify prospective risks that may threaten the future solvency of OHI.

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 2008 through 2012 by the accounting firm of Deloitte & Touche, LLP ("D&T"). The Company received an unqualified 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 Department Regulation No. 118 (11 NYCRR 89), "Audited Financial Statements." This regulation establishes the requirement that insurers develop an Enterprise Risk function to define and mitigate risks within the organization. The regulation is based on the Model Audit Rule ("MAR"), as established by the NAIC, and all references to MAR within this report may be interpreted as references to Regulation 118. The examiner also reviewed the corrective actions taken by the Company with respect to the recommendations concerning financial issues

contained in the prior report on examination. The results of the review are contained in Item 6 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

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

From its date of incorporation until December 31, 1997, OHI was a wholly-owned subsidiary of Oxford Health Plans, Inc., a Delaware corporation. On that date, in accordance with the Department's approval, Oxford Health Plans, Inc. transferred 100% ownership of OHI to OHP-NY, a wholly-owned subsidiary of Oxford, a Delaware corporation. Oxford Health Plans, Inc. was acquired by UHG on July 29, 2004. Oxford Health Plans, Inc. is a subsidiary of UHG.

OHI is licensed to transact accident and health insurance as defined in paragraph 3(i) of Section 1113(a) of the New York Insurance Law. As of December 31, 2012, OHI reported total paid-in-capital of \$1,000,000, comprised of 500,000 shares authorized, issued, and outstanding \$2.00 par value common stock.

The Company's authorized control level Risk-Based Capital ("RBC") was \$86,972,979 as of December 31, 2012. Its total adjusted capital was \$721,825,632, yielding an RBC ratio of 829.9% for 2012.

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 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, 2012, the members of the board of directors and their principal business affiliations were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy Archer Trumbull, CT	Director, Finance - Northeast Region United Healthcare Services, Inc.
James Bedard Hartford, CT	Chief Financial Officer of Northeast Region United Healthcare Services, Inc.
Richard Collins Indianapolis, IN	Chief Executive Officer of Northeast Region for Employer Group Business United Healthcare Services, Inc.
William Golden New York, NY	Chief Executive Officer of New York Health Plan United Healthcare Services, Inc.
Jeffrey Kagan Islandia, NY	Vice President of Products and Services United Healthcare Services, Inc.
Michael McGuire Iselin, NJ	Chief Executive Officer of Health Plan United Healthcare Services, Inc.
Thomas McGuire Hartford, CT	Senior Deputy General Counsel United Healthcare Services, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sandra Nichols, MD North Potomac, MD	Chief Medical Officer United Healthcare Services, Inc.
Dennis O'Brien New York, NY	Network Management of the Northeast Region United Healthcare Services, Inc.
Michael Santoro Trumbull, CT	Regional Vice President of the Northeast Region United Healthcare Services, Inc.
Allen Sorbo Trumbull, CT	Chief Actuary United Healthcare Services, Inc.
Randall Weinstock Hartford, CT	Chief Operation Officer United Healthcare Services, Inc.
Vincent Zuccarello Trumbull, 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 well attended.

The principal officers of the Company as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
William Golden	President & Chief Executive Officer
Richard Collins	Chairman of the Board
Thomas McGuire	General Counsel
Robert Oberrender	Treasurer
N. Brent Cottingham	Vice President
Sanford Cohen, MD	Chief Medical Officer
James Bedard	Chief Financial Officer
Randall Weinstock	Chief Operating Officer

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

Oxford, the parent company of OHP-NY, has established an Audit Committee ("Oxford AC"), which has been designated as the audit committee of various affiliates, including OHP-

NY and OHI. To facilitate effective corporate governance, the Oxford AC coordinates certain activities with the Company's ultimate parent, UHG and UHG's own Audit Committee. It is the responsibility of the Oxford AC to communicate significant unremediated deficiencies or material weaknesses in financial reporting internal controls to the UHG AC.

## B. Corporate Governance

UHG is a publicly traded, diversified health company subject to the Sarbanes-Oxley Act of 2002. 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") of the Board. 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 has 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.

Part 89.12 of Department 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 Department Regulation No. 118 (11 NYCRR 89.1), the audit committee for a SOX-compliant Company must be independent, as defined in the Sarbanes-Oxley Act of 2002.

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 Plan’s ultimate parent UHG, is not an insurance entity, and thus, the circumstances do not fit the exemption. As a result, the Oxford Audit Committee is deemed not to be independent and in violation of the cited Regulation.

It is noted that the Regulation includes a clause permitting insurers to request a waiver to the cited requirement. The Company has submitted such a request for waiver and it is currently under consideration by the Department.

C. Territory and Plan of Operation

As of December 31, 2012, the Company was authorized to transact business in the states of Connecticut, New Jersey, New York, and the Commonwealth of Pennsylvania. The Company is licensed to transact accident and health insurance as defined in paragraph 3(i) of Section 1113(a) of the New York Insurance Law.

OHI, in conjunction with OHP-NY, provides a point-of-service (“POS”) product called the “Freedom Plan.” The Freedom Plan combines the health maintenance organization (“HMO”) benefits and coverage of OHP-NY with conventional indemnity health insurance provided by OHI. The Freedom Plan enrollees pay a composite rate for their health coverage, which is developed from the community rate for the HMO coverage and a separate rate for the

indemnity (“out-of-plan”) coverage. Larger groups have a manual rate for the HMO coverage combined and blended with the group’s experience (“experience rated”).

The Liberty Plan is another POS health care plan offered jointly by OHI and OHP-NY. This Plan offers lower premiums than the Freedom Plan since members choose from a smaller number of in-network providers.

In addition, OHI offers a preferred provider organization (“PPO”) plan which allows members to obtain coverage for services from participating or non-participating providers.

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

<u>Year</u>	<u>New York</u>	<u>Total Direct Written Premiums</u>	<u>Percentage</u>
2012	\$4,696,339,370	\$5,642,976,990	83.22%
2011	\$4,373,120,218	\$5,531,359,978	79.06%
2010	\$3,785,741,582	\$4,830,289,241	78.38%
2009	\$3,445,717,422	\$4,357,890,632	79.07%
2008	\$ 3,374,614,559	\$4,305,554,171	78.38%

As of December 31, 2012, the Company had 1,039,092 members. The following schedule shows the membership increase/decrease by number and percentage during the examination period:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Members	1,039,092	1,026,944	1,035,765	1,020,652	1,143,797
Growth	1.18%	(0.85%)	1.48%	(10.77%)	(5.03%)

The Company's written premiums have increased by a greater percentage than enrollment for the period under review because of the movement of members from the POS product to the PPO product. The Company receives significantly more premium from the PPO product than the POS product, as the majority of the POS premium is credited to OHP-NY because most members use the generally less expensive HMO option.

D. Growth of the Company

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

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Paid Health Claims</u>	<u>Net Income</u>	<u>Policyholders Surplus</u>	<u>Ratio of Net Premiums Written to Surplus</u>
2012	\$2,801,073,065	\$2,267,721,723	\$165,006,081	\$721,825,632	3.88
2011	2,770,192,517	2,190,206,096	161,718,006	573,727,059	4.83
2010	2,416,872,029	1,934,935,230	129,903,836	432,577,929	5.59
2009	2,177,528,687	1,842,398,644	75,121,113	315,084,493	6.91
2008	2,149,038,993	1,714,780,505	140,524,017	617,468,719	3.48

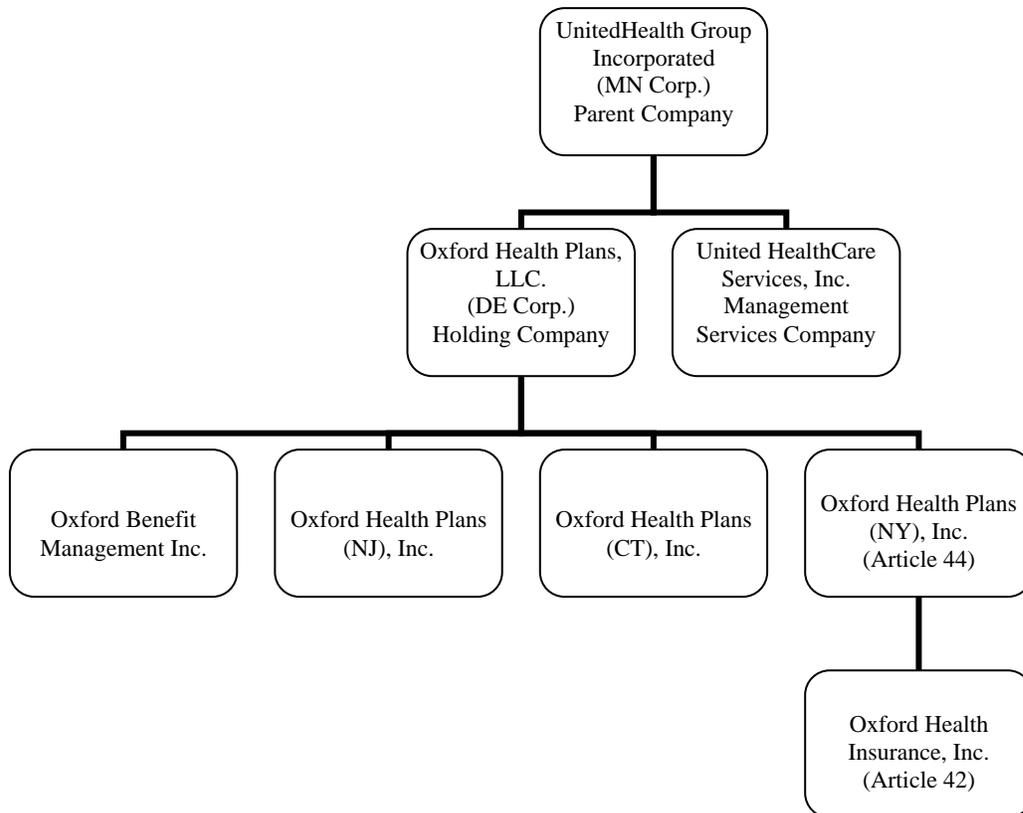
E. Holding Company System

From its date of incorporation until December 31, 1997, OHI was a wholly-owned subsidiary of Oxford Health Plans, Inc. On that date, Oxford transferred 100% ownership of OHI to OHP-NY, which is a wholly-owned subsidiary of Oxford, a Delaware corporation. Oxford was acquired by UHG on July 29, 2004 and is a direct subsidiary of UHG.

As a member of a holding company system, OHI is required to file registration statements pursuant to the requirements of Section 1503 of the New York Insurance Law and Department Regulation No. 52 (11 NYCRR 80). All pertinent filings made regarding the

aforementioned statutes during the examination period 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, 2012:



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

- UnitedHealth Group Incorporated is a Minnesota corporation and the ultimate parent of Oxford Health Insurance, Inc., Oxford Health Plans (NY), Inc., Oxford Health Plans, LLC, United HealthCare Services, Inc., and over one hundred and fifty (150) other affiliated companies.
- United HealthCare Services, Inc. ("UHS"), a management services company within UHG, 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 Oxford and various UHG companies are considered employees of UHS rather than the individual insurers under UHG's holding company system.

- Oxford Health Plans, LLC is a Delaware corporation and the parent corporation of Oxford Health Plans (NY), Inc. and various other Oxford companies, including OHI.
- Oxford Health Plans (NY), Inc. is a New York State corporation and the parent corporation of OHI.

F. Intercompany Agreements

The Company maintains significant intercompany agreements with several affiliated organizations, as follows:

Management Services Agreement

Pursuant to the terms of a management service agreement, which was approved by the Department on January 31, 2011, UHS provides management services to the Company for a fee based on cost reimbursement. The agreement may be terminated upon the written agreement of both parties.

Management fees under this arrangement are included in general administrative expenses and claims adjustment expenses in the accompanying statement of revenue and expenses. Direct expenses not included in the management service agreement, such as broker commissions, examination fees, and premium taxes are paid by UHS on the behalf of the Company. UHS is reimbursed by the Company for these direct expenses.

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.

### Network Services Agreement

Effective January 1, 2006, OHI entered into a Management Services Agreement with Oxford Health Plans LLC and OptumHealth Care Solutions, Inc. (“OptumHealth”). Pursuant to the Management Services Agreement, OptumHealth provided network access for chiropractic services and administrative services for OHI’s members. The Management Services Agreement was terminated effective November 30, 2011. Effective December 1, 2011, OHI entered into a Network Services Agreement (the “Network Services Agreement”) with OptumHealth, which replaces the Management Services Agreement in its entirety. Pursuant to the Network Services Agreement, OptumHealth provides network access for physical, occupational and speech therapy services and chiropractic services to OHI’s commercial members. The Network Services Agreement was submitted for review and approval to the Department on October 17, 2011 and was approved on November 11, 2011.

### Tax Sharing Agreement

On July 29, 2004, OHI entered into a Tax Allocation Agreement (the “Tax Agreement”) with UHG, the ultimate controlling parent and Oxford. The Tax Agreement establishes a formal method for the allocation and payment of federal, state and local income tax liabilities related to the consolidated federal income tax returns filed each year. The Tax Agreement was submitted for review and approval to the Department on August 17, 2004 and was retroactively approved to July 29, 2004 on September 8, 2004.

In addition to the agreements described above, the Company maintains several immaterial affiliated agreements with several affiliated organizations.

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 United Healthcare of New York, Inc. UHG is responsible for maintaining the overall technology infrastructure utilized for data processing by the business units 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 a reportable item related to the review of IS controls, which is as follows:

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 "*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 section 13.1.01 states "*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 "*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.”

As a result of this recommendation from the Connecticut Department of Insurance IT examination, the Department’s IT examination team performed follow-up procedures during the current examination that included a review of company policies to determine if 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 were current and accurate. Management also stated that the implementation of this control was an ongoing effort and was “approximately 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 processes.

As a result of inquiry and review of prior examination procedures and workpapers, the IT examiner concluded that management has made progress related to the implementation of this control, but as yet, the control does not appear to be operating effectively. Therefore, a relevant exception was noted, consistent with the exception documented in the prior examination.

It is recommended that management 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.

#### 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 OHI, the mitigating controls are documented in “eGRC,” an application that, among other functions, documents the internal controls applicable to OHI, as well as the testing that was performed on those controls.

The examiner reviewed and evaluated a sample of OHI’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 weaknesses and none of the examiner’s identified improvements led to material weaknesses or to inaccuracies in the filed financial statements..

It is recommended that the Company change its approach to the documenting and testing of internal controls to enact best practices. It is noted that the definition of “Best Practice” may differ among authoritative sources.

#### I. Statutory and Special Deposits

As of December 31, 2012, the Company had on deposit with New York State bonds with a book value of \$240,007 and a fair value of \$240,337.

J. Fidelity Bond and Other Insurance

At December 31, 2012, 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

Effective January 1, 2006, OHI entered into a quota-share reinsurance agreement ("Quota-Share Agreement") with an affiliate, United Healthcare Insurance Company ("UHIC"), a Connecticut life, accident and health insurance company. Pursuant to the Quota-Share Agreement, OHI ceded 50% of its net liability under policies, contracts and binders of insurance or reinsurance assumed including renewals and liabilities that have been assumed by OHI under State Market Stabilization Pools and the Initial Claim Liability. This agreement was approved by the Department on January 26, 2006, to be effective as of January 1, 2006. See the "Subsequent Event" section of the examination report for additional information regarding changes to the Quota-Share Agreement.

The following table shows the underwriting results for OHI's Quota-Share Agreement with UHIC during the period January 2008 through December 2012:

<u>Year</u>	<u>Ceded Premiums</u>	<u>Ceded Claims</u>	<u>Ratios</u>
2012	\$ 2,850,711,473	\$ 2,278,208,064	79.92%
2011	2,768,915,330	2,188,589,860	79.04%
2010	2,408,135,043	1,970,194,962	81.81%
2009	2,178,732,265	1,811,608,861	83.15%
2008	2,149,039,001	1,717,175,024	79.90%

Effective January 1, 1999, OHI entered into a reinsurance agreement with an affiliate, Oxford Health Plans (NJ), Inc. ("OHP-NJ"), to assume OHP-NJ's out-of-network (point-of-service) business. This agreement was approved by the Department.

The following table shows the underwriting results for OHI's out-of-network reinsurance coverage of OHP-NJ during the period January 2008 through December 2012:

<u>Year</u>	<u>Assumed Premiums</u>	<u>Incurred Claims</u>	<u>Loss Ratios</u>
2012	\$ 14,203,025	\$ 11,907,634	83.84%
2011	\$ 18,400,670	\$ 7,922,509	43.06%
2010	\$ 1,352,396	\$ 1,016,729	75.18%
2009	\$ 1,453,324	\$ 978,997	67.36%
2008	\$ 5,216,143	\$ 2,727,073	52.28%

Note: The significant increase in premium and incurred claims in 2011 is a result of the migration of Health Net Insurance Company of NY members to OHI.

### 3. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and capital and surplus as of December 31, 2012, as contained in the Company's 2012 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for the years under review:

#### A. Balance Sheet

<u>Assets</u>	<u>Examination</u>
Bonds	\$ 1,284,742,812
Cash and short-term investments	421,367,790
Receivable for securities	9,897
Investment income due and accrued	12,072,545
Uncollected premiums and agents' balances in the course of collection	46,782,499
Amounts recoverable from reinsurers	181,277,961
Other amounts receivable under reinsurance contracts	31,848,890
Net deferred tax asset	26,619,113
Premium tax receivable	<u>11,352</u>
Total assets	<u>\$ 2,004,732,859</u>

<u>Liabilities</u>	<u>Examination</u>
Claims unpaid	\$ 338,934,350
Accrued medical incentive pools and bonus amounts	13,097,969
Unpaid claims adjustment expenses	4,596,730
Aggregate health policy reserves	7,977,805
Premiums received in advance	138,010,077
General expenses due or accrued	49,291,154
Current federal and foreign income tax payable and interest thereon	10,824,849
Ceded reinsurance premiums payable	247,441,314
Remittance and items not allocated	100,331
Amounts due to parent, subsidiaries and affiliates	148,765,908
Funds held reinsurance treaties with unauthorized reinsurers	323,169,280
Aggregate write-ins for other liabilities	<u>697,460</u>
 Total liabilities	 \$ <u>1,282,907,227</u>
 <u>Capital and surplus</u>	
Common capital stock	1,000,000
Gross paid in and contributed surplus	44,610,000
Aggregate write-ins for other than special surplus funds	210,000
Unassigned funds (surplus)	<u>676,005,632</u>
 Total capital and surplus	 \$ <u>721,825,632</u>
 Total liabilities, capital and surplus	 \$ <u>2,004,732,859</u>

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 2012. 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: OHI files its tax returns on a consolidated basis with other affiliated companies within the UHG holding company.

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus decreased \$4,123,577 during the five-year examination period, January 1, 2008 through December 31, 2012, detailed as follows:

Revenue

Net premium income	\$ 12,314,705,291	
Change in unearned premium reserves and reserve for rate credits	<u>16,964,114</u>	
Total revenues		\$ 12,331,669,405

Hospital and Medical Expenses

Hospital/medical benefits	\$ 15,139,066,615	
Other professional services	121,052,719	
Outside referrals	584,425	
Emergency room and out-of-area	1,919,684,763	
Prescription drugs	2,623,133,469	
Incentive pools, withhold adjustments and bonus amounts	41,131,485	
Net reinsurance recoveries	<u>9,894,611,278</u>	
Total medical and hospital expenses	9,950,042,198	
Claims adjustment expenses	432,152,446	
General administrative expenses	<u>1,035,310,064</u>	
Total underwriting deductions		<u>11,417,504,708</u>
Net underwriting gain		\$ 914,164,697
Net investment income earned		70,545,773
Net realized capital gains		15,497,085
Net gain from agents' or premium balances charged off		(6,308,515)
Aggregate write-ins for other income or expenses		<u>(1,151,320)</u>
Net income before federal income taxes		992,747,720
Federal and foreign income taxes incurred		<u>320,474,667</u>
Net income		\$ <u><u>672,273,053</u></u>



#### **4. AGGREGATE RESERVES AND CLAIMS UNPAID**

The examination liability of \$338,934,350 for the above captioned account is the same as the amount reported by OHI in its 2012 filed annual statement.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in OHI'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 OHI's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2012.

#### **5. SUBSEQUENT EVENTS**

##### **A. OHI Un-stacking and Reorganization**

On January 24, 2014, the New York State Department of Health approved the transfer of the 318 shares of Oxford Health Insurance, Inc. stock from the Plan to its parent, Oxford Health Plans, LLC. On the transfer date, April 1, 2014, OHI was valued at \$863,598,199.

## B. Pharmacy Processing

The Company entered into a pharmaceutical benefits management (“PBM”) agreement with an affiliated entity, OptumRx, Inc., with services to commence effective January 1, 2013. The PBM agreement was approved by the Department and replaced the previous agreement with Medco Health Solutions, Inc. The Company does not anticipate this change will have a significant impact on the statutory basis financial statements.

## C. Reinsurance

On April 1, 2014, the 50% quota-share reinsurance agreement between the Company and UHIC was terminated. A full and final settlement of all balances occurred in which there was no effect on capital and surplus. Additionally, there was no replacement agreement was put into place.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2007 contained the following eight (8) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Management</u>	
1	It is recommended that board members who are unable or unwilling to attend meetings consistently, should resign or be replaced.  A similar recommendation was made in the previous report on examination.  <i>The Company has complied with this recommendation.</i>	6
	<u>Reinsurance</u>	
2	It is recommended that OHI ensure that its reinsurance premium rates are sufficient to cover claims incurred from the assumed OHP-NJ out-of-network business.  A similar recommendation was made in the previous report on examination.  <i>The Company has complied with this recommendation.</i>	10
	<u>Abandoned Property</u>	
3	It is recommended that the Company comply with Section 1316(1) of the New York Abandoned Property Law and make the required abandoned property filings to the New York State Comptroller for amounts unclaimed for three years.  <i>The Company has complied with this recommendation.</i>	14

**ITEM NO.****PAGE NO.**

- 4 It is recommended that OHI put in place procedures to ensure that the Company files the required preliminary abandoned property filings to the New York State Comptroller, in compliance with Section 1316(2) of the New York Abandoned Property Law. 15

*The Company has complied with this recommendation.*

- 5 It is recommended that OHI put in place procedures to ensure that it complies with the requirements of Section 1422(1) of the New York Abandoned Property Law by maintaining proof of mailing for all written notices sent under such section of the New York Abandoned Property Law within its records. 15

*The Company has complied with this recommendation.*

Provider/third party agreements

- 6 It is recommended that OHI ensure that all of its third party administrative agreements include appropriate specific standards for record retention. These standards should adhere to the requirements of Section 243.2(b)(8) of Department Regulation 152 (11 NYCRR 243). 16

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

*The Company has complied with this recommendation.*

Accounts and Records

- 7 It is recommended that OHI ensure that all corresponding exhibits and schedules within its annual and quarterly statement filings to the Superintendent of Insurance be completed in accordance with the NAIC's Health Annual and Quarterly Statement Instructions. 17

*The Company has complied with this recommendation.*

**ITEM NO.****PAGE NO.**

- 8 It is recommended that OHI disclose the asset and liability accounts related to premiums due and uncollected and any offsetting liability in the “Notes to the Financial Statement” section of its annual statement filing (under Statement of Significant Accounting Policies) in accordance with Statement of Statutory Accounting Principles (SSAP) No. 1.

17

*The Company has complied with this recommendation.*

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS****ITEM****PAGE NO.**Accounts and Records

- A It is recommended that management 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. 6

Internal Controls

- B. It is recommended that the Company change its approach to the documenting and testing of internal controls to enact best practices. It is noted that the definition of “Best Practice” may differ among authoritative sources. 19



**APPOINTMENT NO. 30875**

**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 the*

***Oxford Health Insurance, Inc.***

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

***Company***

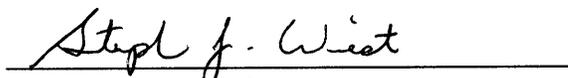
*with such other information as he shall deem requisite.*

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

*this 7th day of January, 2013*

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

By:

  
\_\_\_\_\_  
**Stephen J. Wiest**  
*Deputy Bureau Chief  
Health Bureau*

