REPORT ON EXAMINATION

OF

UNITEDHEALTHCARE OF NEW YORK, INC.

AS OF

DECEMBER 31, 2013

DATE OF REPORT	**MAY 18, 2015**
EXAMINER	**CHRISTOPHER RUSHFORD, CFE**

TABLE OF CONTENTS

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 18, 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 31119, dated March 21, 2014, attached hereto, I have made an examination into the condition and affairs of UnitedHealthcare of New York, Inc., a for-profit health maintenance organization ("HMO") licensed pursuant to the provisions of Article 44 of the New York Public Health Law, as of December 31, 2013. The following report is respectfully submitted thereon.

The examination was conducted at the home office of UnitedHealthcare of New York, Inc., located at 185 Asylum St. Hartford, CT. The Company's administrative office is located at 77 Water Street, New York, NY.

Wherever the designations "UHC NY" or the "Plan" appear herein, without qualification, they should be understood to indicate UnitedHealthcare of New York, Inc.

Wherever the designation "UHIC NY" appears herein, without qualification, it should be understood to indicate UnitedHealthcare Insurance Company of New York, a for-profit stock company licensed pursuant to Article 42 of the New York Insurance Law. A concurrent examination was made of UHIC NY, and a separate report thereon has been submitted.

Wherever the designation “AmeriChoice” appears herein, without qualification, it should be understood to indicate the AmeriChoice Corporation, the direct parent of UHC 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 Plan’s ultimate parent.

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 Plan 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 from 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 Plan'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 Plan's current financial condition, as well as to identify prospective risks that may threaten the future solvency of UHC 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 Plan's organizational structure, business approach, and control environment was utilized to develop the examination approach. The examination evaluated the Plan'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 Plan was audited annually for the years 2009 through 2013 by the accounting firm of Deloitte & Touche, LLP ("D&T"). The Plan 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 Plan.

A review was made of the Plan's compliance with the provisions of Insurance Regulation No. 118 (11 NYCRR 89), "Audited Financial Statements", which is based on the Model Audit Rule ("MAR"), 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. Regulation 203 does not directly apply to the ultimate controlling parent of an HMO; however, the regulation applies to UHG by virtue of UHG's

capacity as ultimate controlling parent of UHC NY. The examiner also reviewed the corrective actions taken by the Plan 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 PLAN

UHC NY is a for-profit HMO licensed pursuant to Article 44 of the New York Public Health Law. UHC NY was originally incorporated on July 10, 1986, as MetLife HealthCare Network of New York, Inc., a HMO licensed in the State of New York. The Plan was an indirect wholly-owned subsidiary of Metropolitan Life Insurance Company and commenced business on January 1, 1987. The Plan was granted a certificate of authority under the provisions of Article 44 of the New York Public Health Law, effective July 31, 1987, to operate as a for-profit independent practice association ("IPA") model HMO. On January 2, 1997, the Plan changed its name to UnitedHealthcare of New York, Inc.

UHC NY and UnitedHealthcare of Upstate New York, Inc. (formerly known as Travelers Health Network, Inc.) merged, effective December 31, 2002. The merged company retained the name UnitedHealthcare of New York, Inc. and was authorized to write commercial business in nineteen counties of New York State and Medicaid in eleven counties of New York State.

In October 2005, UHC NY began a market withdrawal of its commercial business. This market withdrawal was completed on October 1, 2006, with the Plan removing this business from its certificate of authority.

Further, effective December 31, 2007, the Department approved the merger of AmeriChoice of New York, Inc. ("AC-NY") into UHC NY. The merger was accounted for as a statutory merger in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 68 – *Business Combinations and Goodwill*. As a result of the merger, the separate corporate existence of AC-NY ceased, and UHC NY continued as the surviving corporation. Effective December 31, 2007, AmeriChoice became the sole shareholder of UHC NY.

Under the provisions of Part 98-1.11(f) of the Administrative Rules and Regulations of the New York State Department of Health ("Department of Health"), each HMO initiating operations under the authority of Article 44 of the Public Health Law shall establish a deposit in the form of an escrow account for the protection of enrollees in an amount equal to the greater of (i) five percent of the estimated expenditures for health care services (with certain adjustments to pharmacy expenses, as of December 31, 2013), or (ii) $100,000. As of December 31, 2013, the Plan had estimated expenditures for health care services in the amount of $1,771,419,319 and an escrow deposit requirement of $68,919,411. Pursuant to Part 98-1.11(f) of the Administrative Rules and Regulations of the Department of Health, the Plan had established an escrow account with a bank that is qualified pursuant to Part 98-1.11(f), in the amount of $70,748,142 (fair value) as of December 31, 2013.

The Plan's authorized control level Risk-Based Capital ("RBC") was $56,435,672 as of December 31, 2013. Its total adjusted capital was $345,190,224 yielding an RBC ratio of 611.7% for 2013.

A. Management and Controls

Pursuant to the Plan's charter and by-laws, management of the Plan is to be vested in a Board of Directors (the "Board"), subject to the following:

- the number of directors shall be fixed by action of a majority of the shareholders;
- no decrease in the authorized number of directors shall have the effect of shortening the term of any incumbent director;
- at all times, no less than one-third (1/3) of the directors shall be residents of the State of New York; and
- as required by Part 98-1.11(g)(1) of the Administrative Rules and Regulations of the Health Department (10 NYCRR 98-1.11), within one year of the corporation receiving its certificate of authority to transact business as a HMO in the State of New York, no less than 20 percent (20%) of the directors of the corporation shall be enrollees of the corporation.

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

Name and Residence	Principal Business Affiliation
Pasquale H. Celli East Meadow, NY	President, New York Health Plan, United Healthcare Services, Inc.
Arlee Griffin, Jr.* Brooklyn, NY	Resident Director and Pastor, Berean Baptist Church
Rita F. Johnson-Mills Brentwood ,TN	Senior Vice President, Community & State Operations, United Healthcare Services, Inc.

Name and Residence	Principal Business Affiliation
Thomas D. Morales, Sr.* New Paltz, NY	Resident Director and President, College of Staten Island
Dennis P. O' Brien Cos Cob, CT	Regional Vice President, Northeast Network Management, United Healthcare Services, Inc.

*Enrollee representative – Part 98-1.11(g) of the Administrative Rules and Regulations of the Health Department (10 NYCRR 98-1.11(g)), requires that a minimum of twenty percent (20%) of the Board of a HMO be comprised of enrollee representatives. The Plan was in compliance with said Regulation, as of 12/31/13.

Section 1.1 of UHC-NY's by-laws state the following, in part:

> *There shall be an annual meeting of the stockholders at such date and time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, for the election of directors and for the transaction of such other business as may come before the meeting."*

A review of the board minutes revealed that the Plan did not have the required annual meeting of shareholders in 2009.

It is recommended that the Plan comply with its by-laws and have the required annual shareholders meeting.

A review of the minutes of the attendance records at the Plan's Board meetings held during the period under examination demonstrates the meetings were generally well attended.

The principal officers of UHC NY as of December 31, 2013 were as follows:

Name	Title
Pasquale H. Celli	President
Rita F. Johnson-Mills	Chair
Robert W. Oberrender	Treasurer
Phillip R. Franz	Chief Financial Officer
Christina R. Palme-Krizak	Secretary

Name	Title
Michelle M. Huntley	Assistant Secretary
Juanita B. Luis	Assistant Secretary

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

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 Plan.

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 Plan'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 Plan's Board and key executives encourage integrity and ethical behavior throughout the Plan, and that senior management promotes a corporate culture that acknowledges, understands and maintains an effective control environment.

The Plan's management has an adequate approach to identifying and mitigating risks across the organization, including prospective business risks. The Plan deals proactively with its areas of risk, and its management is knowledgeable about mitigation strategies. Through

risk discussions and other measures, the Plan'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 Plan'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 a reportable item related to the review of the Corporate Governance, as follows:

UHC NY Audit Committee Independence

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…"

An Audit Committee for UHC NY 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 Plan's ultimate parent, UHG, is not an insurance entity, and thus, the circumstances do not fit the exemption. As a result, the AmeriChoice 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

UHC NY was licensed as a for-profit HMO under Article 44 of the New York Public Health Law on July 10, 1986 and began operations in January 1, 1987. The Plan offers its

enrollees a variety of managed care programs and products through contractual arrangements with physicians, hospitals, and other health care providers, in which such providers deliver medical care to its enrollees primarily on a capitated or modified fee-for-service basis for Medicaid and Medicare recipients.

At December 31, 2013, UHC NY was authorized to transact business in the following counties in the State of New York:

Albany	Cortland	Madison	Oswego	Suffolk
Bronx	Dutchess	Monroe	Putnam	Tioga
Broome	Erie	Nassau	Queens	Ulster
Cayuga	Essex	New York	Rensselaer	Warren
Chautauqua	Fulton	Niagara	Richmond	Westchester
Chemung	Genesse	Oneida	Rockland	Wyoming
Chenango	Herkimer	Onondaga	Saratoga	
Clinton	Jefferson	Orange	Schenectady	
Columbia	Kings	Orleans	St. Lawrence	

The Plan 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 Plan 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 Medicare Advantage product offered by the Plan in the State of New York includes complete individualized care planning and care benefits for aging, disabled, and chronically ill

individuals. Medicare Advantage offers these long-term care services in nursing homes, community-based settings, and private homes.

The Plan has a contract with the State of New York Office of Health Insurance Programs (the "State") to provide health care services to Medicaid, Family Health Plus, Child Health Plus, Medicaid Advantage (programs for uninsured children and adults) and UnitedHealthcare Dual Advantage – Medicare & Medicaid (dual eligible Medicare/Medicaid beneficiaries).

Effective December 2012, the Plan began offering a Managed Long Term Care product for New York non-custodial eligible beneficiaries. Managed Long Term care plans provide long-term care services (like home health and nursing home care) and ancillary and ambulatory services (including dentistry and medical equipment), and receive Medicaid payments. Members receive services from their primary care physicians and inpatient hospital services using their Medicaid and/or Medicare cards.

The following schedule shows direct premiums earned during the five-year examination period:

Year	Direct Premiums Earned
2013	$ 1,878,998,311
2012	$ 1,608,461,435
2011	$ 1,200,309,722
2010	$ 974,182,139
2009	$ 824,312,415

The following chart shows the Plan's members, by line of business during the examination period:

	Medicare Advantage, Including Part D	Medicaid	Government Medicaid Advantage	Child Health Plus	Family Health Plus	Other	Total
2013	25,538	296,793	968	25,806	47,516	542	397,163
2012	15,032	268,091	515	21,871	44,823	2	350,334
2011	12,963	230,139	158	22,430	40,093	0	305,783
2010	10,857	211,162	0	19,128	35,019	0	276,166
2009	10,260	192,292	0	17,187	33,011	0	252,750

D. Growth of the Plan

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

Year	Net Admitted Assets	Capital and Surplus	Premiums Written	Net Income
2013	$ 606,178,048	$ 345,190,224	$ 1,878,998,311	$ 79,925,112
2012	564,522,247	323,900,387	1,608,461,435	111,725,635
2011	416,142,109	226,319,829	1,200,309,722	80,917,276
2010	435,290,691	248,161,276	974,182,139	69,392,278
2009	306,945,353	167,155,731	824,312,415	44,408,101

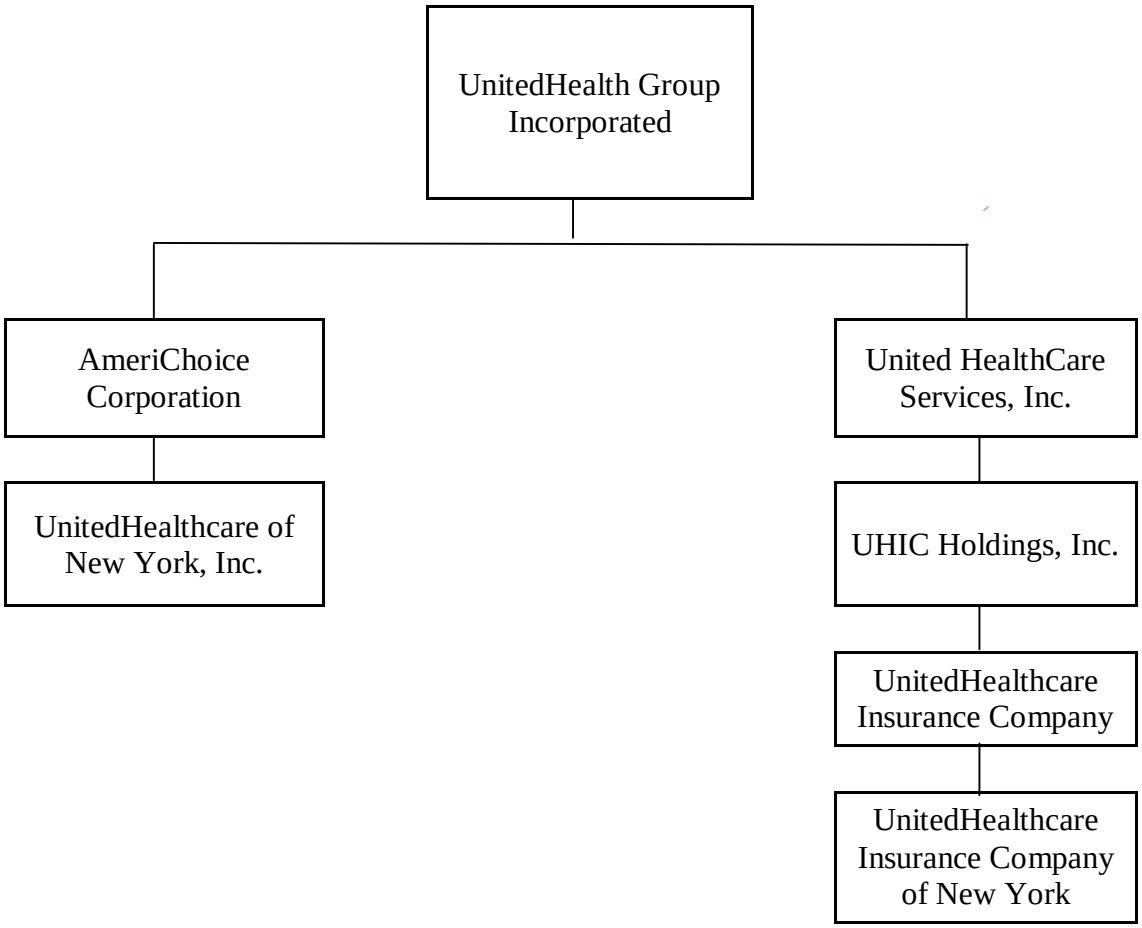
E. Holding Company System

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

As a member of a holding company system, UHC NY is required to file registration statements pursuant to the requirements of Part 98-1.16(e) of the Administrative Rules and Regulations of the Health Department (10 NYCRR 98-1.16) and Insurance 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 Plan's holding company system as of December 31, 2013:



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

- UnitedHealth Group Incorporated is a Minnesota corporation and the ultimate parent of UHC NY, 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 UHC 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 Plan is a 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 and pharmacy benefits management.

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Plan 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

Pursuant to the terms of a management service agreement ("Management Service Agreement"), UHS will provide management services to the Plan until the agreement is terminated upon the written agreement of both parties, for a fee based on cost reimbursement. 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 Plan. UHS is reimbursed by the Plan for these direct expenses.

Under the Management Service Agreement, UHS provides or arranges for services on behalf of the Plan using a pass-through of charges incurred by UHS on a Per Member Per Month ("PMPM") basis (where the charge incurred by UHS is on a PMPM basis) or using another allocation methodology consistent with the Management Service Agreement. These services include, but are 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, access to a network of transplant providers, and discount program services. Effective February 16, 2009, UHCNY entered into a first amendment to the Management Service Agreement with UHS. This first amendment was submitted for review to the Department of Financial Services on March 4, 2009 and was approved on July 9, 2009.

Effective January 1, 2014, the Plan entered into a new management service agreement ("New Management Service Agreement") with UHS. The New Management Service Agreement was approved by the Department on March 27, 2014. See item C of the "Subsequent Events" section for more information. UHS will continue to provide management services to the Plan under a revised fee structure which is changing from a cost based reimbursement basis to a direct charge basis based on UHS's expense for services or use of assets provided to the Plan.

UHS' subsidiaries and divisions provide various services to enrollees of the Plan during the year. OptumHealth Care Solutions, Inc. provides chiropractic, physical therapy and complex medical conditions services. The Agreement was submitted for review and approval

to the Department on November 27, 2013 and was approved on December 23, 2013. 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. Dental Benefit Providers, Inc. provides dental care assistance. The Agreement was submitted for review to the Department as part of the license merger of AmeriChoice of New York, Inc. to UHCNY. Effective January 1, 2010, UHC NY entered into the first amendment to the Agreement, which was submitted for review and approval to the Department on January 26, 2010 and was approved on January 29, 2010. United Behavioral Health, Inc. provides mental health and substance abuse services.

The Plan contracts with OptumRx, Inc. ("Optum Rx") to provide personal health product catalogues for eligible members who earn additional benefits through lifestyle choices. 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 Plan's members and manages the personal health products credit balance. The agreement, amendment I and related participating addendum were submitted for review to the Department on March 27, 2009 and approved on July 9, 2009. Amendment II and related participating addendum were submitted for review to the Department on December 16, 2009, and were approved on December 24, 2009. Amendments III, IV and related participating addendum were submitted for review to the Department on December 16, 2011 and approved on January 19, 2012. The amendment V and related participating addendum were submitted for review to the Department on November 15, 2012 and approved on June 6, 2013. Effective January 1, 2014, UHCNY participates in amendment VI, which along with its related addenda, were submitted to the Department on October 9, 2013 and approved on October 31, 2013.

The Plan has an agreement with OptumInsight, Inc., an affiliate of the Plan, for services that lead up to and include the prevention and recovery of medical expense (benefit) overpayments. Service fees are either a percentage of every recovery or a capitated service fee charged to the Plan as a PMPM. The agreement was submitted for review to the Department on May 4, 2011 and approved on May 26, 2011.

Subordinated Revolving Credit Agreement

The Plan holds an $8,000,000 subordinated revolving credit agreement ("Credit Agreement") with UHG at an interest rate of London InterBank Offered Rate ("LIBOR") plus a margin of 0.50%. This Credit Agreement is subordinate to the extent that it does not conflict with any credit facility held by either party. The aggregate principal amount that may be outstanding at any time is the lesser of 3% of the Plan's admitted assets or 25% of the Plan's policyholder surplus as of December 31 of the preceding year. The Credit Agreement is for a one-year term and automatically renews annually, unless terminated by either party.

Effective June 1, 2012, the Plan entered into an Amended and Restated Subordinated Revolving Credit Agreement ("Amended Credit Agreement") with UHG. This Amended Credit Agreement replaces and supersedes the original Credit Agreement. Pursuant to the Amended Credit Agreement, UHG provides the Plan with a short-term borrowing facility where UHC NY may borrow funds upon demand from UHG up to a maximum of $100,000,000 at an interest rate equal to LIBOR plus 50 basis points. The Amended 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.

No amounts were outstanding under the Amended Credit Agreement as of December 31, 2013. As of September 30, 2014, the Amended Credit Agreement held an outstanding balance of $50,000,000; the balance was repaid on October 2, 2014.

Pharmacy Benefits Management

Effective January 1, 2013, the Plan entered into a pharmaceutical benefits management ("PBM") agreement with an affiliated entity, OptumRx. Pursuant to the agreement, OptumRx provides UHC 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 UHC NY with mail order network prescription services. UHC 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 and replaced the previous agreement with Medco Health Solutions, Inc.

Tax Allocation Agreement

On July 29, 2004, the Plan entered into a tax allocation 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 Plan receives

a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent 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.

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

G. Accounts and Records

Evaluation of Controls in Information Systems

The Plan'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 UHC NY. UHG is responsible for maintaining the overall technology infrastructure utilized for data processing by the business segments within the Plan.

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 Plan.

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

1. Data Classification

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 UHG'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 Plan 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's 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 Plan'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 Plan 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. End User Computing

The Plan'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 Plan'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 Plan 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 Plan's Internal Audit function, as opposed to being the responsibility of Plan 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 Plan 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 Plan'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 UHC NY, the mitigating controls are documented in "eGRC", an application that, among other functions, documents the internal controls applicable to UHC NY, as well as the testing that was performed on those controls.

The examiner reviewed and evaluated a sample of UHC 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 Plan had on deposit with a bank qualified to be custodian of the Plan's escrow account established pursuant to Part 98-1.11(f), bonds with a book value of $65,901,535 and a fair market value of $70,748,142.

J. Fidelity Bond and Other Insurance

At December 31, 2013, the Plan 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 Plan 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. Pensions, Stock Ownership and Insurance Plans

The Plan 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 Plan 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 Plan'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 Plan's financial condition as presented in its December 31, 2013 filed annual statement.

The firm of Deloitte & Touche ("D&T") was retained by the Plan to audit the Plan'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 Plan 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	$	360,115,400
Cash, cash equivalents and short-term investments		188,593,935
Investment income due and accrued		2,940,974
Uncollected premiums and agents' balances in the course of collection		6,168,992
Amounts receivable relating to uninsured plans		29,294,439
Current federal and foreign income tax recoverable and interest thereon		2,297,264
Net deferred tax asset		5,631,023
Health care and other amounts receivable		10,453,230
Aggregate write-ins for other than invested assets		682,791
Total assets	$	606,178,048

Liabilities

Claims unpaid	$	175,441,783
Accrued medical incentive pool and bonus amounts		4,296,853
Unpaid claims adjustment expenses		2,254,105
Aggregate health policy reserves		2,273,182
Aggregate health claim reserves		139,817
Premiums received in advance		724,741
General expenses due or accrued		6,163,471
Amounts withheld or retained for the account of others		9,733,647
Remittance and items not allocated		8,115
Amounts due to parent, subsidiaries and affiliates		18,418,982
Payable for securities		6,700,418
Liability for amounts held under uninsured accident		26,394,864
Aggregate write-ins for other liabilities		8,437,846
Total liabilities	$	260,987,824

Capital and surplus

Common capital stock		140
Preferred capital stock		8,000,000
Gross paid in and contributed surplus		58,708,292
Aggregate write-ins for other than special surplus funds		173,191,267
Unassigned funds		105,290,525
Total capital and surplus	$	345,190,224
Total liabilities, capital and surplus	$	606,178,048

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

Note 2: UHC NY 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 increased $126,156,697 during the five-year examination period, January 1, 2009 through December 31, 2013, detailed as follows:

Revenue		
Net premium income	$ 6,486,264,022	
Change in unearned premium reserves and reserves for rate credits	(1,910,793)	
Aggregate write-ins for other health care related revenues	2,091,222	
Total revenues		$ 6,486,444,451
Hospital and Medical Expenses		
Hospital/medical benefits	$ 4,258,976,569	
Other professional services	290,914,452	
Prescription drugs	581,634,773	
Incentive pools, withhold adjustments and bonus amounts	14,107,229	
Net reinsurance recoveries	(1,054,438)	
Total hospital and medical	$ 5,144,578,585	
Administrative expenses		
Claims adjustment expenses	208,365,773	
General administrative expenses	601,219,936	
Increase in reserves for life and accident and health contracts	344,000	
Total underwriting deductions		5,954,508,294
Net underwriting gain		$ 531,936,157
Net investment income earned		42,126,952
Net realized capital gains		6,583,509
Net loss from agents or premium balances charged off		(14,985)
Aggregate write-ins for other income or expenses		(124,457)
Net income before federal income taxes		$ 580,507,176
Federal and foreign income taxes incurred		194,138,774
Net income		$ 386,368,402

Change in Capital and Surplus

Capital and surplus, per report on examination, as of December 31, 2008			$ 219,033,527
	Gains in Surplus	Losses in Surplus	
Net income	$ 386,368,402	$	
Change in net deferred income tax	2,624,165		
Change in non-admitted assets	4,126,412		
Cumulative effect of changes in accounting principles	196,450		
Paid in (surplus adjustments)	30,612,549		
Dividends to stockholders		271,000,000	
Aggregate write-ins for gains or losses in surplus		26,771,281	
Net change in capital and surplus			126,156,697
Capital and surplus, per report on examination, as of December 31, 2013			$ 345,190,224

4. AGGREGATE RESERVES AND CLAIMS UNPAID

The examination liabilities of $177,854,782 for the aggregate reserves and claims unpaid accounts are the same as the amounts reported by UHC 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 Plan'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 the Plan'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 Plan 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 Plan had written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates the Plan's portion of the annual health insurance industry fee, payable on September 30, 2014, to be $27,100,000.

B. Dividend to Parent

The Plan requested approval from the Department on May 14, 2013 and August 15, 2013 to pay extraordinary dividends of $60,000,000 and $30,000,000, respectively, to the Plan's Parent company, AmeriChoice. These dividends were approved by the Department of Health, with the advice of the Department, on January 8, 2014 and January 13, 2014, respectively, and paid on February 27, 2014.

C. Management Service Agreement

Effective January 1, 2014, the Plan entered into a new management agreement with UHS. This agreement has been approved by the Department. UHS will continue to provide management services to the Plan under a revised fee structure which is changing from a cost reimbursement agreement to a direct charge based on UHS's expense for services or use of assets provided to the Plan. The agreement was submitted for review to the Department on September 25, 2013 and was approved on March 27, 2014. The agreement was been approved by the Department of Health on January 6, 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 HMO 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 initiatives of the HMO. *The Plan has complied with this recommendation, except the Plan still does not have formally documented ERM policies and/or procedure manual. See item C in the "Summary of Comments and Recommendations" section for more information.*	9
	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. *The Plan has complied with this recommendation.*	10
	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. *The Plan has complied with this recommendation.*	11

ITEM NO. **PAGE NO.**

ITEM NO. **PAGE NO.**

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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. **31119**

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 of New York, Inc.

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

HMO

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