REPORT ON EXAMINATION

OF

EMPIRE HEALTHCHOICE HMO, INC.

AS OF

DECEMBER 31, 2010

DATE OF REPORT	**NOVEMBER 4, 2013**
EXAMINERS	**JERRY EHLERS, CFE**
	WAI WONG

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November 4, 2013

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 30710, dated April 19, 2011, attached hereto, we have made an examination into the condition and affairs of Empire HealthChoice HMO, Inc., a for-profit health maintenance organization licensed under the provisions of Article 44 of the New York Public Health Law as of December 31, 2010, and submit the following report thereon.

The examination was conducted at the Plan's home office located at One Liberty Plaza, New York, NY.

Wherever the designations the "Plan" or "EHC HMO" appear herein, without qualification, they should be understood to mean Empire HealthChoice HMO, Inc.

Empire HealthChoice HMO, Inc., is a New York domiciled stock health maintenance organization ("HMO") and is a wholly-owned subsidiary of Empire HealthChoice Assurance, Inc. ("EHCA"), which is an indirect wholly-owned subsidiary of WellPoint, Inc. ("WellPoint").

Wherever the designation “EHCA” appears herein, without qualification, it should be understood to indicate Empire HealthChoice Assurance, Inc.

Wherever the designation the “Companies” appear herein, without qualification, it should be understood to indicate Empire HealthChoice HMO, Inc., and Empire HealthChoice Assurance, Inc., collectively.

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

A concurrent examination was made of Empire HealthChoice Assurance, Inc., an affiliated stock insurance company, licensed pursuant to the provisions of Article 42 of the New York Insurance Law. A separate report thereon has been submitted.

A separate examination into the manner in which EHC HMO and its Parent, EHCA, conduct their business practices and fulfill their contractual obligations to policyholders and claimants is being conducted as of December 31, 2011. A separate report thereon will be submitted.

1. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2006. This examination of the Plan is a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2011 Edition* ("the Handbook") and it covers the four-year period January 1, 2007 through December 31, 2010. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2010, 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 examiners' assessment of risk in the Plan's operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiners planned and performed the examination to evaluate the Plan's current financial condition, as well as identify prospective risks that may threaten the future solvency of EHC HMO.

The examiners 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 annual statement instructions.

Information concerning the Plan's organization structure, business approach and control environment were 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 2007 through 2010, by the accounting firm of Ernst & Young LLP ("E&Y"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of E&Y were reviewed and relied upon in conjunction with this examination. A review was also made of WellPoint, Inc.'s, the Company's ultimate parent, Internal Audit function, Sarbanes-Oxley/Model Audit Rule ("SOX/MAR") function, and Enterprise Risk Management program, as they relate to the Plan.

The examiners reviewed the corrective actions taken by the Plan with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiners' 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 departure from laws, regulations or rules, or which require explanation or description.

2. DESCRIPTION OF THE PLAN

EHC HMO is a for-profit HMO licensed pursuant to Article 44 of the New York Public Health Law. EHC HMO was originally incorporated on March 5, 1996, as Family HealthChoice, Inc., a health maintenance organization licensed in the State of New York. Family HealthChoice, Inc. commenced business on March 19, 1996. Family HealthChoice, Inc. was granted a certificate of authority under the provisions of Article 44 of the New York Public Health Law, effective March 7, 1996. Effective June 10, 1996, Family HealthChoice, Inc., changed its name to Empire HealthChoice, HMO Inc.

EHC HMO is a licensee of the Blue Cross and Blue Shield Association ("BCBSA") and markets its product under the Blue Cross Blue Shield name. EHC HMO has been in operation for over 14 years and offers HMO, point-of-service, Medicare Advantage and state-sponsored products to individual and group accounts in the greater New York metropolitan area and select upstate counties. EHC HMO is a wholly-owned subsidiary of Empire HealthChoice Assurance, Inc., which is an indirect wholly-owned subsidiary of WellPoint, Inc., a publicly traded company and the largest health benefits company in terms of membership in the United States, serving approximately 33.3 million medical members as of December 31, 2010.

EHC HMO plans to discontinue the small group policy forms and options planned for 2012. Subsequent the examination period, the Plan has taken the following measures:

- On November 11, 2011, EHC HMO discontinued their Small Group and Commercial market. EHC HMO discontinued prescription drug cost sharing options that affected approximately 200,000 insureds; and

- On April 1, 2012, the Companies discontinued their Small Group Commercial and Health Maintenance Organization ("HMO") market. The Companies are discontinuing all remaining small group plans/options in the Commercial and HMO markets with the exception of its Health Maintenance Organization ("HMO") option, its Preferred Provider Organization ("PPO") option, its Exclusive

Provider Organization ("EPO") option, its Consumer Directed Health Plan ("CDHP") option and its Healthy New York ("HNY") plan, which affected approximately 215,524 insureds.

A. Management and Controls

The EHC HMO Board of Directors ("BOD") is comprised of internal management and external independent directors. As required by Part 98-1.11(g) of the Administrative Rules and Regulations of the New York Health Department (10 NYCRR 98-1.11(g)), a minimum of twenty percent (20%) of the Board of Directors of the Plan must be comprised of enrollee representatives.

Part 98-1.11(g) of the Administrative Rules and Regulations of Department of Health (10 NYCRR 98-1.11(g)) states in part:

> "(g) Except in the case of an HMO operated by a corporation licensed under article 43 of the Insurance Law which also operates a Public Health Law article 44 line of business, no less than one third of the members of the governing authority of an MCO shall be composed of residents of New York State.
>
> (1) Within one year of the MCO becoming operational, no less than 20 percent of the members of the governing authority shall be enrollees of such MCO…"

The Plan complied with this requirement during the examination period.

Pursuant to the Plan's By-laws, management of the Plan is to be vested in a Board of Directors consisting of not less than three (3) and not more than ten (10) Directors. As of December 31, 2010, EHCA's Board of Directors was comprised of five (5) Directors. The Audit Committee for WellPoint, Inc. ("WellPoint"), the Companies' ultimate parent, which is composed of outside Directors, assumes responsibility for all entities in the holding company structure. With the independent auditors, internal auditors, and the Risk Assessment and

Controls group, the WellPoint Audit Committee reviews the effectiveness of the accounting and financial controls and elicits recommendations that may improve controls. The WellPoint Audit Committee meets each quarter and minutes of the meetings are prepared and retained.

The following individuals were members of the BOD of EHC HMO as of December 31, 2010:

Name and Residence	Principal Business Affiliation
Lois Freedman* East Norwich, New York	Member, Empire HealthChoice HMO, Inc.
Grace H. McCabe New York, New York	Retired
Chrystal L. Veazey-Watson West Caldwell, New Jersey	Associate General Counsel, New York Market, WellPoint, Inc.
Mark L. Wagar New York, New York	SVP, President and CEO New York Market, WellPoint, Inc.
Richard D. Watson New York, New York	Regional Vice President, Finance, WellPoint, Inc.

*Enrollee representative per Part 98-1.11(g) of the Administrative Rules and Regulations of the Department of Health (10 NYCRR 98-1.11(g)).

The principal officers of the Plan as of December 31, 2010 were as follows:

Name	**Title**
Mark L. Wagar	President and Chief Executive Officer
Jay Henry Wagner	Secretary
Iris Xu	Treasurer
Chrystal L. Veazey-Watson	Assistant Secretary
Cheryl Allari	Valuation Actuary

B. Corporate Governance

WellPoint, Inc., is a publicly traded, diversified health company subject to the Sarbanes-Oxley Act of 2002. Controls are identified by management and testing managed and monitored by the WellPoint Risk Control and Assurance group. Shared services are managed by the WellPoint organization, including Information Technology, Risk Management, Investments, Accounting, Internal Audit, and Risk Control and Assurance.

Although in its infancy, WellPoint has adopted an ERM framework for proactively addressing and mitigating risks, including prospective business risks. Exhibit M of the Handbook (*Understanding the Corporate Governance Structure*) was utilized by the examiners 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. The Plan's BOD and key executives encourage integrity and ethical behavior throughout the Plan and senior management promotes a corporate culture that acknowledges, understands and maintains an effective control environment.

WellPoint's and the Plan's management have an adequate approach to identifying and mitigating risks across the organization, including prospective business risks. WellPoint and the Plan's management are proactive in identifying and addressing areas of risk, and management is knowledgeable about risk mitigation strategies. Through risk discussions and other measures, WellPoint's and the Plan's management discuss significant issues and react to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. As a result of recent developments with Federal Health Care Reform and review by

the U.S. Supreme Court, WellPoint is actively monitoring the potential impact to the organization at the entity level and also at the local level, which includes the Plan, of any necessary modifications or changes.

WellPoint has an established Internal Audit Department ("IAD") function, which is independent of management, to serve the WellPoint Audit Committee of the BOD ("the Audit Committee" or "AC"). In addition, WellPoint has established an Audit Council to address Department Regulation No. 118 (11 NYCRR 89), New York's version of the NAIC's Model Audit Rule, requirements and assist management at the local level with any insurance regulatory reviews.

During the course of this examination, consideration was given to the significance and potential impact of certain IAD and Risk Control and Assurance ("RCA") findings. To the extent possible, the examiners relied upon the work performed by the IAD, as prescribed by the Handbook.

No exceptions relative to the Plan's corporate governance were noted.

C. Territory and Plan of Operation

EHC HMO, a for-profit health maintenance organization was issued a certificate of authority pursuant to Article 44 of the Public Health Law to operate in New York effective March 7, 1996. It was originally known as Family HealthChoice, Inc. Effective June 10, 1996, the HMO changed its name to Empire HealthChoice, Inc.

EHC HMO is a licensee of the Blue Cross and Blue Shield Association ("BCBSA") and markets its products under the Blue Cross Blue Shield trade name. EHC HMO has been in operation for over fourteen (14) years and offers HMO, Point-of-Service, Medicare Advantage and state-sponsored products to individuals and groups in the greater New York metropolitan area and select upstate counties.

As set forth in its certificate of authority, EHC HMO is permitted to serve the following twenty-eight (28) counties in the State of New York.

New York Region

Bronx	Dutchess	Kings	Nassau
New York	Putnam	Queens	Richmond
Rockland	Suffolk	Westchester	

Albany Region

Albany	Clinton	Columbia	Delaware
Essex	Fulton	Greene	Montgomery
Orange	Rensselaer	Saratoga	Schenectady
Schoharie	Sullivan	Ulster	Warren
Washington			

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

	Net Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2010	$878,597,406	$559,427,176	$1,967,789,021	$178,809,886
2009	813,948,144	482,308,422	2,294,564,479	138,926,624
2008	895,162,251	426,883,479	2,642,361,151	78,684,872
2007	933,099,408	433,202,713	2,682,033,782	143,755,341

D. Risk-Based Capital

Risk-Based Capital ("RBC") measures the minimum amount of capital appropriate for the Plan to support its overall business operations in consideration of its size and inherent risks. Although RBC is not currently applied to Public Health Law Article 44 companies such as EHC HMO, it was noted that the Plan's RBC for the examination period was 506%, 485.8%, 667.9% and 917% for calendar years 2007, 2008, 2009 and 2010, respectively.

E. Dividends

Empire HealthChoice HMO, Inc. declared and paid a dividend on November 10, 2011, to its sole shareholder Empire HealthChoice Assurance, Inc. The aggregate amount of the dividend exceeded 10% of the Plan's prior twelve month period's capital and surplus and required the commissioner's approval along with the advice of the superintendent. The Plan failed to comply with Part 98-1.11(c) of the Administrative Rules and Regulations of the Health Department when it did not obtain an approval from the New York State Department of Health, and the advice of the Department, for the dividend prior to its distribution.

Part 98-1.11(c) of the Administrative Rules and Regulations of the Health Department states in part:

> "(c) No HMO which is organized as stock corporation shall declare or distribute any dividend on its capital stock, except out of earned surplus unless upon prior application therefore, the commissioner, with the advice of the superintendent, approves such distribution. No such company shall declare or distribute any dividend to shareholders which, together with all such dividends declared or distributed by it during the prior twelve month period, exceeds the lesser of ten percent of its capital and surplus (net worth"), as shown by its last statement on file with the commissioner, or 100 percent of adjusted net investment income for such period unless, upon prior application therefore, the commissioner, with the advice of the superintendent, approves a greater dividend payment based upon his/her finding that the insurer will retain sufficient surplus to support its obligations and writings…"

It is recommended that the Plan comply with Part 98-1.11(c) of the Administrative Rules and Regulations of the Health Department by obtaining the commissioner's approval along with the advice of the superintendent, before declaring and distributing dividend exceeding 10% of its prior twelve month period's capital and surplus or 100% of adjusted net investment income for such period.

F. Small Group Business

Due to the erosion of the profitability of its small group business, EHC HMO has limited its writings in New York. It is expected that the trend in small group disenrollment will continue as EHC HMO and EHCA pursue alternative contract arrangements, including adding stop-loss insurance and Administrative Services Only ("ASO") products, as well as the healthcare reform initiatives noted previously and customer trends detailed below. The decline was predominately the result of predominately the switch to an affiliated Preferred Provider Organization ("PPO") plan by some small groups, as well as competitor Health Maintenance Organization ("HMO") plans and the economic downturn.

On September 2, 2011, the Department met with representatives from the Companies in order to discuss a plan for the discontinuance of small group policy forms and options which were planned for January 1, 2012. Early in 2011, the Companies submitted a plan to discontinue certain products relative to their small group and commercial markets, which were mostly associated with prescription drug plans. This will impact 300,000 of the Companies small group members.

On October 1, 2011, EHCA discontinued its small group and commercial Health Savings Account ("HSA") market. EHCA is discontinuing two options from its Total Blue product,

which represents two of six total cost share configurations. This affected approximately 31,000 insureds.

Effective January 1, 2012, EHCA also discontinued its small group commercial market. EHCA is discontinuing small group indemnity products (Tradition Plus). These consist of older, closed blocks of business that include hospital, medical and Rx indemnity coverage, which affects approximately 3,200 insureds.

Additionally, on April 1, 2012, the Companies discontinued their small group commercial and HMO market business. The Companies are discontinuing all remaining small group plans/options in the commercial and Health Maintenance Organization markets except for the HMO option, the Preferred Provider Organization ("PPO") option, the Exclusive Provider Organization ("EPO") option, and the Consumer Directed Health Plan ("CDHP") option and Healthy New York ("HNY"), which will affect approximately 215,000 insureds.

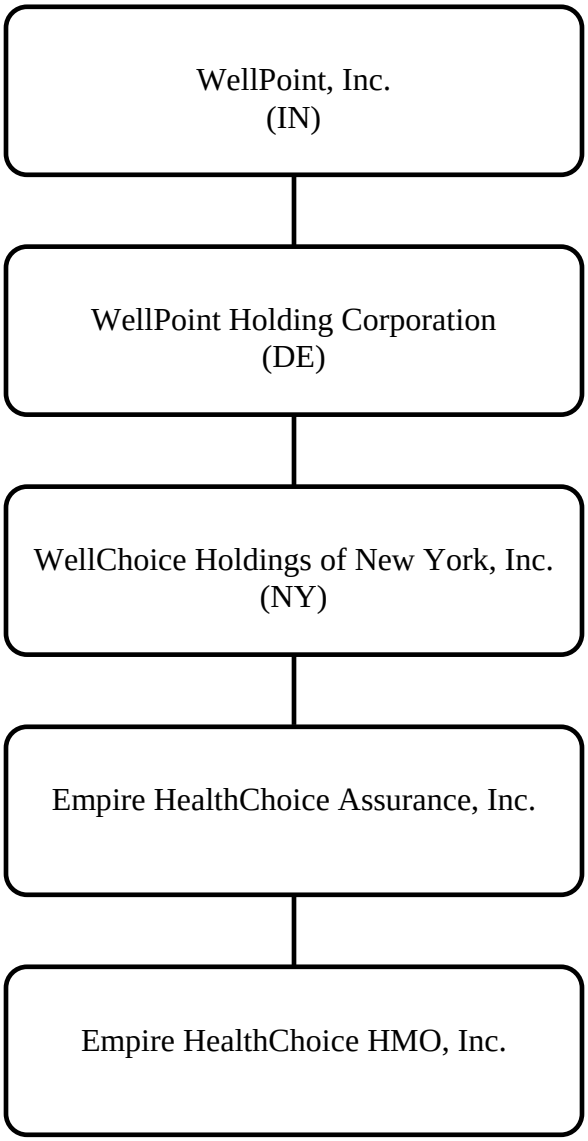
G. Holding Company System

EHC HMO is a wholly-owned subsidiary of Empire HealthChoice Assurance, Inc. ("EHCA"). As of the examination date, EHCA was a wholly-owned subsidiary of WellPoint Holding Corporation ("WHC"). WHC was a wholly-owned subsidiary of WellPoint, Inc. ("WellPoint"), which is a publicly traded company and the largest health benefits company in terms of memberships in the United States, serving approximately 34 million medical members as of December 31, 2010.

In a letter dated October 14, 2011, subsequent to the examination period, WellPoint Holding Corporation filed an application for approval for the acquisition of Rayant Insurance

Company of New York ("Rayant"). This application was filed pursuant to Section 1506 of the New York Insurance Law and Subpart 80-1.6 of Department Regulation No. 52 (11 NYCRR 80-1.6). Pursuant to the purchase agreement, WellPoint Holding Corporation purchased 100% of the capital stock of Rayant, a dental insurance company wholly-owned by Horizon Healthcare Plan Holding Company, Inc. Rayant became a party to the WellPoint inter-company Federal Income Tax Sharing Agreement and the Amended and Restarted Master Administrative Services Agreement.

The following chart depicts the Plan's holding company system as of December 31, 2010:



The Plan is a party to numerous inter-company agreements which are subject to the Department's and the Department of Health's review and approval. These agreements involve activities such as administrative services, cash management, investment management, and tax allocation.

Inter-company agreements and amendments for the Plan were in place as of December 31, 2010, and included the following:

- Amended and Restated WellPoint Master Administrative Services Agreement – The Companies entered into the Amended and Restated WellPoint Master Administrative Services Agreement effective August 1, 2007, with WellPoint, Inc. ("WellPoint"), and its subsidiaries and affiliates. This agreement was submitted to the Department on April 3, 2006 and was approved by the Department in a letter dated July 3, 2008.

- Federal Income Tax Allocation Agreement – The Companies entered into the Amended Consolidated Federal Income Tax Agreement, effective December 15, 2006, with WellPoint and its subsidiaries. This agreement was submitted to the Department on September 28, 2006, and a letter of no objection was sent to the Companies on October 4, 2006.

E. Internal Controls

The NAIC Risk Surveillance approach to financial examinations relies on the review of mitigating controls applicable to the inherent risks of the companies examined. In the case of WellPoint and the Companies, the mitigating controls are housed in "Open Pages", a vendor purchased software package. Controls related to the WellPoint Sarbanes-Oxley ("SOX") and Department Regulation No. 118 (11 NYCRR 89) are tested and monitored by WellPoint's Risk Control and Assurance ("RCA") group. Within WellPoint's SOX records, the internal controls applicable to the Companies were identified by its management.

A thorough review of WellPoint's SOX controls documentation and the Companies' MAR internal controls were an important component of the examination process. There were no identified material weaknesses or significant deficiencies identified by E&Y, the Companies' Auditor. Additionally, there were no material control deficiencies or internal control observations noted by the examiners during the review of WellPoint's and the Companies' internal controls that warranted attention.

The information technology ("IT") environment for EHC HMO is managed in a shared services model by WellPoint, Inc. Under this model, WellPoint manages all aspects of information technology for the entire Holding Company.

IT infrastructure and operations for the financially significant systems identified were managed at the data centers located in Richmond, Virginia, and in Staten Island, New York, during the examination period. In October 2011, the Staten Island, New York data center was successfully migrated to the St. Louis, Missouri data center.

The examination encompassed a review of the controls for financially significant applications, systems and infrastructure. The IT portion of the examination was performed in accordance with the Handbook and utilized applicable procedures found in Exhibit C – *Evaluation of Controls in Information Technology* – of the Handbook.

The IT examiners coordinated their efforts with the financial examination team as they determined whether to rely on the Information Technology General Controls ("ITGC") environment for financially significant applications.

Controls for financially significant applications, systems, and underlying infrastructure in each of the NAIC Exhibit C – *Evaluation of Controls in Information Technology* – program

areas listed below represent the framework for the scope of this examination. The following control areas were reviewed:

- Plan and Organize;
- Acquire and Implement;
- Deliver and Support; and
- Monitor and Evaluate.

It was determined that the overall assessment of the EHC HMO ITGC environment for the key financial systems that supported the preparation of the Company's financial statementssupported an ITGC reliance-based financial examination. The IT examiners assessed the ITGC for the Companies as effective. No exceptions were noted relative to EHC HMO's IT environment.

I. Facilitation of the Examination

Section 310(a)(3) of the New York Insurance Law states:

> "The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so."

On numerous occasions, the Plan failed to provide the examiners with the requested documentation in a timely manner. Failure to provide requested documentation led to delays in the examination process. A similar comment was included in the Plan's prior report on examination.

It is recommended that the Plan comply with the requirements of Section 310(a)(3) of the New York Insurance Law by providing requested documentation in a timely manner.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following compares the assets, liabilities and capital and surplus as determined by this examination with those reported by EHC HMO in its filed annual statement as of December 31, 2010. This statement is the same as the balance sheet filed by EHC HMO in its filed annual statement as of December 31, 2010:

	Examination	Plan
Assets		
Bonds	$ 636,633,408	$ 636,633,408
Cash and cash equivalents	(30,263,652)	(30,263,652)
Short-term investments	23,729,106	23,729,106
Securities lending reinvested collateral assets	28,749,637	28,749,637
Aggregate write-ins for invested assets	736,509	736,509
Investment income due & accrued	6,183,405	6,183,405
Uncollected premiums and agents' balances in the course of collection	39,502,270	39,502,270
Net deferred tax asset	13,505,248	13,505,248
Receivables from parent, subsidiaries and affiliates	76,922,938	76,922,938
Health care and other amounts receivables	7,438,959	7,438,959
Aggregate write-ins for other than invested assets	75,459,578	75,459,578
Total assets	$ 878,597,406	$ 878,597,406

	Examination	Plan
Liabilities		
Claims unpaid	$ 160,782,867	$ 160,782,867
Accrued medical incentive pool and bonus amounts	1,283,840	1,283,840
Unpaid claims adjustment expenses	4,935,836	4,935,836
Aggregate health policy reserves	23,882,095	23,882,095
Aggregate health claim reserves	6,150,000	6,150,000
Premiums received in advance	21,506,367	21,506,367
General expenses due and accrued	18,654,271	18,654,271
Current federal and foreign income tax payable	4,645,013	4,645,013
Amounts withheld for the account for others	324,000	324,000
Remittances and items not allocated	559,731	559,731
Amounts due to parent, subsidiaries and affiliates	14,596,755	14,596,755
Payable for securities lending	28,749,637	28,749,637
Aggregate write-ins for other liabilities	33,099,818	33,099,818
Total liabilities	$ 319,170,230	$ 319,170,230
Capital and Surplus		
Common capital stock	$ 2	$ 2
Gross paid-in and contributed surplus	71,999,998	71,999,998
Aggregate write-ins for other than special surplus funds	206,617,847	206,617,847
Unassigned funds	280,809,329	280,809,329
Total capital and surplus	$ 559,427,176	$ 559,427,176
Total liabilities, capital and surplus	$ 878,597,406	$ 878,597,406

NOTE: The Internal Revenue Service ("IRS") has not conducted any audits of the income tax returns filed on behalf of the Plan through tax year 2010. The examiner is unaware of any potential exposure of the Plan to tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses and Capital and Surplus

Capital and surplus increased $146,688,092 during the four-year examination period, January 1, 2007 through December 31, 2010, detailed as follows:

Revenue		
Premium income		$ 9,586,748,433
Change in unearned premium reserve		(4,879,235)
Total revenue		$ 9,581,869,198
Hospital and medical expense		
Hospital / medical expenses	$ 5,980,198,850	
Other professional services	487,438,303	
Outside referrals	193,326,141	
Emergency room and out of area	323,670,827	
Prescription drugs	1,215,201,106	
Aggregate write-ins for other hospital and medical	(117,677,299)	
Incentive pool, withheld adjustments and bonus amounts	2,837,218	
Total hospital and medical expenses	$ 8,084,995,146	
Claims adjustment expenses	243,960,043	
General administrative expenses	552,163,465	
Total underwriting expenses		8,881,118,654
Net underwriting gains		$ 700,750,544
Net investment income earned		178,806,384
Net realized capital loss		(42,349,922)
Net gain from agents' or premium balances charged off		4,698,617
Aggregate write-ins for other income or expenses		(27,529,245)
Net income before federal and foreign income taxes		$ 814,376,378
Federal and foreign income taxes incurred		306,440,746
Net income		$ 507,935,632

Changes in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination, as of December 31, 2006			$ 412,739,084
Net income	$ 507,935,632		
Change in unrealized capital gains		$ 51,845	
Change in net deferred income tax	16,726,702		
Change in non-admitted assets		28,842,418	
Dividends to stockholders		355,000,000	
Aggregate write-ins for gains / losses to surplus	5,920,021		
Net increase in capital and surplus			$ 146,688,092
Capital and surplus, per report on examination, as of December 31, 2010			$ 559,427,176

4. CLAIMS UNPAID

The examination liability of $160,782,867 for the above captioned account is the same as the amount reported by EHC HMO in its 2010 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 the Plan's internal records and 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. Such estimate was calculated based on actuarial principles, which utilized the Plan's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2010.

5. PREMIUM REFUNDS AND DEPARTMENT REGULATION NO. 146 (11 NYCRR 361) - SPECIFIED MEDICAL CONDITIONS ("SMC") POOLS

During the examination it was noted that monies received by the Plan from the Market Stabilization Pools, which are to be given to the policyholders in terms of actual refunds, and/or credits in future premiums, were not accounted for properly; the Plan incorrectly, upon receipt of the monies reduced its paid claims expense by the total amount of monies received when actually it should have established a separate liability for monies that it had not yet distributed to the policyholders.

The impact to the financial statements for the above items was determined to be immaterial, therefore no change was made thereon.

It is recommended that the Plan properly accrue for all monies received from the SMC pools that remain undistributed to the policyholders.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2006, contained the following nine (9) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
1.	Management and Controls	
	It is recommended that better recordkeeping be prepared in regard to recording changes to the board's members.	7
	The Plan has complied with this recommendation.	
	Holding Company System	
2.	It is recommended that EHC complies with Part 98-1.10(c) of the Administrative Rules and Regulations of the Health Department and refrain from enacting agreements requiring the Superintendent's approval until such approval has been obtained.	11
	The Plan has complied with this recommendation.	
3.	It is recommended that EHC continues to provide its management with summary reports of inter-company expense allocations and that the reports be used to verify that the expenses allocated to EHC are fair and equitable.	12
	The Plan has complied with this recommendation.	
4.	It is recommended that EHC continues to ensure that all inter-company accounting transactions are correct and verified in all aspects prior to being recorded.	12
	The Plan has complied with this recommendation.	
5.	EHC's failure to maintain a separate cash disbursements journal may constitute a violation of the cited statutory requirements.	13
	EHC defends its use of a single journal for multiple entities by stating that the use of individualized company numbers is sufficient to permit the transactions to be segregated by entity when desired.	
	The Plan has complied with this recommendation.	

ITEM NO. **PAGE NO.**

Accounts and Records

6. It is recommended that EHC reviews its investment portfolio more frequently than quarterly, at least monthly, to ensure compliance with all applicable New York investment limitation statutes and internal guidelines. 14

The Plan has complied with this recommendation.

7. It is recommended that EHC continues to ensure compliance with Department Regulation No. 152 by ensuring that its record retention schedules available for reference are clear and complete. 15

The Plan has complied with this recommendation.

Internal Controls

8. It is recommended that EHC continues to improve and enhance its internal control environment by ensuring that control descriptions are clear, adequately described and meet the criteria of a control. 17

The Plan has complied with this recommendation.

Facilitation of Examination

9. It is recommended that EHC improves its procedures for facilitating examinations. These comments are also directed at the HMO's independent certified public accountant in regard to the requirements of Section 307(b) of the New York Insurance Law and Department Regulation No. 118 (11 NYCRR 89). 18

The Plan has not fully complied with this recommendation. A similar comment appears in this report.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Respectfully submitted,

Jerry Ehlers, CFE

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

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

Jerry Ehlers, CFE

Subscribed and sworn to before me
this 5th day of March 2014.

DENISE C. LENNOX
NOTARY PUBLIC, STATE OF NEW YORK
No. 01LE6110190
QUALIFIED IN WAYNE COUNTY
MY COMMISSION EXPIRES MAY 24, 20 16

Respectfully submitted,

Wai Wong
Associate Insurance Examiner

STATE OF NEW YORK)

) SS.

)

COUNTY OF NEW YORK)

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

Wai Wong

Subscribed and sworn to before me
this 28th day of APRIL, 2014

Charles T. Lovejoy

Charles T. Lovejoy
Notary Public, State of New York
No. 01-4756952
Qualified in New York
Commission Expires 1/26/18

Appointment No. **30710**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Noble Consulting Services, Inc.

as a proper person to examine into the affairs of the

Empire Healthchoice HMO, Inc.

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

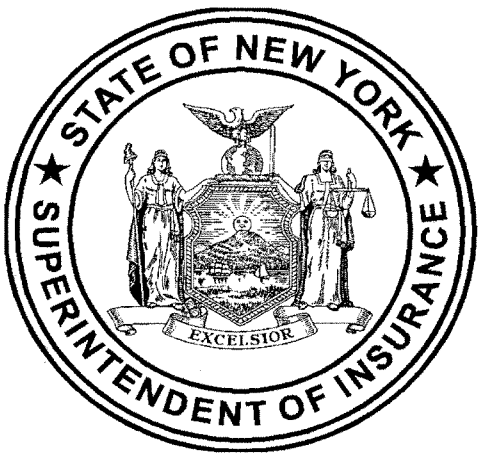
HMO

with such other information as he shall deem requisite.

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

This 19th day of April, 2011

James J. Wrynn
Superintendent of Insurance



Appointment No. **30711**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Wai Wong

as a proper person to examine into the affairs of the

Empire Healthchoice HMO, Inc.

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

HMO

with such other information as he shall deem requisite.

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

This 29th day of June, 2011

James J. Wrynn
Superintendent of Insurance

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR