REPORT ON EXAMINATION

OF

OXFORD HEALTH PLANS (NY), INC.

AS OF

DECEMBER 31, 2002

DATE OF REPORT	**MARCH 2, 2004**
EXAMINER	**BRUCE BOROFSKY**

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

Date: March 2, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the provisions of the New York Insurance Law and in accordance with the instructions contained in Appointment Number 22078 dated July 3, 2003, attached hereto, I have made an examination into the condition and affairs of Oxford Health Plans (NY), Inc., as of December 31, 2002 and submit the following report thereon.

The examination was conducted at the Plan's home office located at 48 Monroe Turnpike, Trumbull CT.

Wherever the designations "the Plan" or "OHPNY" appear herein, without qualification, they should be understood to indicate Oxford Health Plans (NY), Inc., a wholly-owned subsidiary of Oxford Health Plans, Inc.

Wherever the designation "Oxford" or "OHPI" appears herein, without qualification, it should be understood to indicate Oxford Health Plans, Inc., the parent of Oxford Health Plans (NY), Inc.

1. SCOPE OF EXAMINATION

The previous financial examination was conducted as of December 31, 1997. A supplemental report on examination dealing primarily with market conduct activities as of September 30, 2001 was filed on November 20, 2002. This examination covers the five-year period from January 1, 1998 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2002 in accordance with Statutory Accounting Principles, as adopted by the Department, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners (NAIC):

History of Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Business in force
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by OHPNY with regard to comments and recommendations in the prior report on examination.

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

2. DESCRIPTION OF PLAN

OHPNY is a health maintenance organization ("HMO") incorporated on April 19, 1985 under New York State Law as a for-profit corporation for the purpose of providing comprehensive health care services on a prepaid basis, and for the purpose of establishing and operating an HMO and health care delivery systems. The Plan has been deemed a Competitive Medical Plan by the Federal Health Care Finance Administration for purposes of the Federal Medicare Program.

A. Management

Pursuant to the Company's charter and by-laws, management of OHPNY is vested in a board of directors consisting of no more than ten members. As of the examination date, the board of directors was comprised of 5 members. The board meets four times during each calendar year. The directors as of December 31, 2002 were as follows:

Name and Residence	Principal Business Affiliation
Charles W. Berg Westport, CT	President and Chief Executive Officer Oxford Health Plans, Inc.
Alan M. Muney, M.D. Darien, CT	Chief Medical Officer Oxford Health Plans, Inc.
William J. Golden Northport, NY	Sr. Vice-President, Sales Oxford Health Plans, Inc.
Richard D. Drankoski* Katonah, NY	Director, Human Resources Paul Weiss Rifkind Wharton & Garrison
Kurt B. Thompson Easton, CT	Chief Financial Officer Oxford Health Plans, Inc.

* Enrollee representative

Part 98-1.11(f) of the Administrative Rules and Regulations of the Health Department requires that twenty percent of the board of directors be comprised of enrollee representatives. The Plan is in compliance with said regulation.

A review of the minutes of the attendance records at the Company's board of directors' meetings held during the period under examination revealed that the meetings were well attended.

The officers of OHPNY as of December 31, 2002 were as follows:

Name	Title
Charles W. Berg	President
Carmel Colica	Secretary
Kurt B. Thompson	Chief Financial Officer

It should be noted that certain members of the board of directors and senior management of OHPNY are also members of the board of directors and senior management of OHPI, and other affiliated companies.

A review of Board of Directors meeting minutes revealed that subsequent to the examination date, on March 24, 2003, the Board of Directors unanimously passed the following resolution:

> "**RESOLVED**, that the Board approves and acknowledges that all future dividend transfers in excess of the statutorily required minimum capital and surplus amounts from the Company to its parent company are deemed approved without further action by the Board. "

Part 98-11(g)(7) of the New York Rules and Regulations (NYCRR98-1.11 (g)(7)) states in part:

> "…The responsibilities of the governing authority of the HMO shall include, but not be limited to, …(5) authority over the disposition of assets and incurring of liabilities on behalf of the HMO;…"

The board's March 24, 2003 resolution establishes a standard that removes from future board their ability to comply with their fiduciary responsibility and the aforementioned regulation.

It is recommended that OHPNY immediately withdraw its blanket approval for future dividends and ensure that all dividend requests are submitted to the board of directors for approval on a case by case basis.

It is noted that the Company has complied with this recommendation.

The board has established a Physicians Advisory Board as a committee of the board of directors. Although the Company maintains meetings were held, no minutes of those meetings were maintained. Such minutes are important to ensure a history exists of the discussions and decisions that affect the operation of the Company.

It is recommended that minutes be kept of all official meetings of the board of directors or the committees thereof.

B. Territory and Plan of Operation

OHPNY was licensed as a for-profit Individual Practice Association (IPA) Model HMO under Article 44 of the New York State Public Health Law on June 1, 1986, and began operations on that date. At December 31, 2002, OHPNY was authorized to transact business only in the following counties in the state of New York:

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

OHPNY maintains a hybrid Point of Service ("POS") option, the "Freedom Plan", which is available to members in conjunction with its subsidiary, Oxford Health Insurance, Inc (OHI). The Freedom Plan combines the benefits and coverage of the

HMO with conventional 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 that is derived by blending in the group's own experience. A wholly experience rated contract is also available to groups with at least 100 members. The Liberty Plan is also a POS health care plan that is available to groups/members. This plan offers lower premiums than the Freedom Plan by allowing members to choose from a smaller network of in-network providers. The Plan also offers Medicare and Healthy NY.

The following schedule shows direct premiums written in the State of New York during the five-year examination period:

Year	New York
1998	$3,323,819,331
1999	3,100,215,329
2000	2,956,594,157
2001	3,188,762,893
2002	3,255,951,971

The following chart shows the members by line of business during the examination period.

	HMO		Point of Service			Gov't	Total
	Large	Ind'l	Large	Small	Ind'l		
1998	12,300	34,100	523,100	494,500	34,600	158,200	1,356,800
1999	114,745	32,889	475,345	453,980	30,797	83,555	1,191,311
2000	112,519	28,706	482,228	379,006	24,905	80,634	1,087,998
2001	112,230	26,431	474,691	366,466	20,763	72,730	1,073,311
2002	92,184	24,123	484,078	344,256	17,797	68,480	1,030,918

C. Reinsurance

Until March 31, 2002, OHPNY maintained a reinsurance policy with Centre Insurance Company whereby the Reinsurer agreed to indemnify OHPNY for the cost of covered therapy services rendered during the term. The policy was terminated at that date.

OHPNY initiated a reinsurance policy with Ace American Insurance Co. on November 1, 2002. Under that agreement, the Reinsurer agreed to indemnify Oxford for orthopedic coverage in the event its cost of orthopedic coverage exceeds established levels up to a maximum of $30 million per year for the two year period covered by the policy.

Each of these contracts includes an insolvency clause that meets the requirements of Section 1308 of the New York Insurance Law.

OHPNY recorded a conversion program with Celtic Insurance Company as reinsurance in Schedule S of the 2002 Annual Statement. The agreement is not a reinsurance policy. In actuality, the program makes available to New York members who move out of state conversion coverage when those members lose their coverage and have no other coverage available.

It is recommended that OHPNY discontinue reporting its conversion program with Celtic Insurance Company as reinsurance in Schedule S.

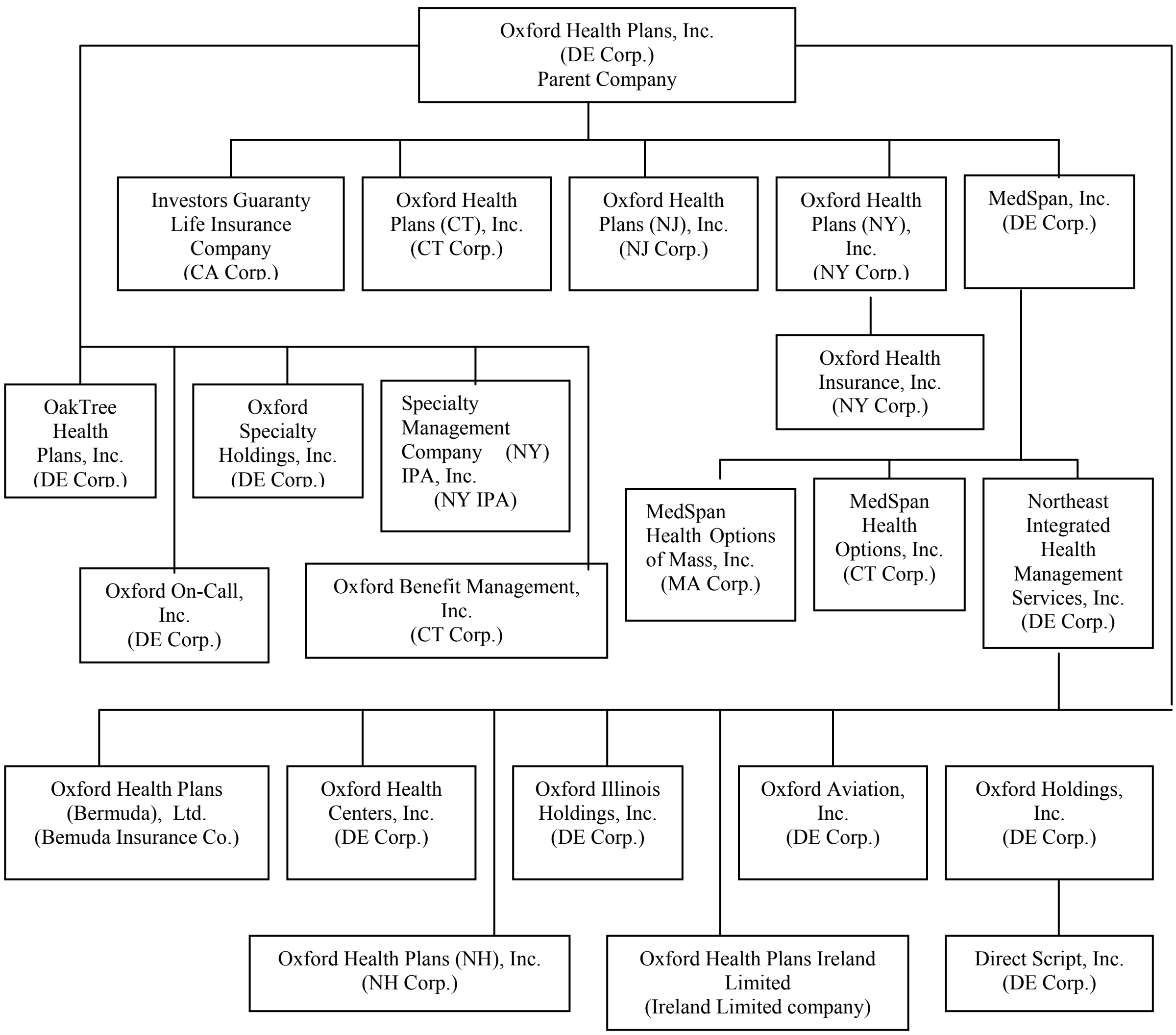
It is noted that the Company has complied with this recommendation.

D. Holding Company System

As a member of a holding company system, OHPNY is required to file registration statements pursuant to the requirements of Article 15 of the New York

Insurance Law and Department Regulation 52 (11NYCRR 80). All pertinent filings made regarding the aforementioned statutes during the examination period were reviewed, and no problem areas were encountered.

The following is the organizational chart of the holding company system as of December 31, 2002:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Premium and risk revenue to Capital & Surplus	7.1 to 1
Liabilities to Liquid assets	69.4 %
1 YR Reserve Development to Prior Year Capital & Surplus	(15.4 %)
Change in Capital & Surplus	15.6 %
Premium receivable to premium revenue	0.7 %
Affiliated receivables to Capital & Surplus	0.0 %

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Claims	$13,022,140,507	82.2%
Claim adjustment expenses	394,599,131	2.5%
General administrative expenses	1,588,404,445	10.0%
Net underwriting gain	828,082,292	5.2%
Premium Revenue	15,833,266,375	100.0%

Note: The Annual Statements for the years 1998 through 2000 do not list claim adjustment expenses and general administrative expenses separately. This table utilizes an extrapolation of the 2001 and 2002 ratios for those figures.

F. Investment Activities

The Plan's primary investments are in bonds backed by the US government. Its custodian is the Mellon Bank.

It was noted that OHPNY exchanged a large number of its investments throughout calendar year 2002. OHPNY indicated this was due to the implementation of new investment guidelines.

Section 1404(a)(10)(B)(i) of the New York Insurance Law prohibits OHPNY from having more than 10% of its admitted assets invested in the securities of any one institution. Contrary to this limitation, as of December 31, 2002, OHPNY had 11.31% of its assets invested in one security.

It is recommended that OHPNY comply with New York Insurance Law §1404(a)(10)(B)(i) and ensure that it does not invest more that 10% of its admitted assets in the securities of any one institution.

It is noted that the Company has complied with this recommendation as of December 31, 2003.

New York Insurance Law Section 1411(a) states the following:

> "No domestic insurer shall make any loan or investment… unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan."

While the Company's investment guidelines were approved by the board of directors, in two cases, investments were made in excess of those guidelines. Specifically, certain bonds had maturity dates beyond those permitted. When questioned, OHPNY maintained that the guidelines had not been written clearly and that the board's intention had been to permit the specific investments involved.

It is recommended that OHPNY's investment guidelines be rewritten to clearly specify the types of investments that are permitted.

One of the methods generally used to monitor the appropriateness of security transactions is the separation of final approval from that of authorization. As of the examination date, the Oxford employee who had responsibility for signing off on security trades also had the power to give direction to the custodian.

It is recommended that OHPNY remove the responsibility for final approval of financial transactions from the responsibility of providing financial direction to the custodian.

G. <u>Provider/TPA Arrangements - Risk-Sharing/Fraud Prevention</u>

Through Oxford, OHPNY maintains Third Party Administration (TPA) agreements with several organizations as follows:

- Triad Healthcare Inc.: Provides a network of chiropractors, utilization management and claims administration for chiropractic services. This is an arrangement whereby Oxford pays Triad a set capitation amount for each member enrolled for medical services plus an administrative fee for the network, utilization management and claims services. In turn, network chiropractic providers are paid on a fee-for-service basis.
- Orthonet: Provides a network of Physical Therapists in exchange for an administrative fee. In turn, network Physical Therapists are paid on a fee-for-service basis.
- Medco Health Solutions, Inc.: Administers OHPNY's pharmaceutical benefits program on a fee-for-service basis.
- New York Medical Imaging, Inc ("NYMI").: Administers OHPNY's radiology benefits on a capitated basis.

Review of the TPA agreements revealed that neither the OrthoNet nor the NYMI agreements establish specific standards for the TPA's as regards record retention.

New York Insurance Law Section 409 establishes the requirement that OHPNY submit a Fraud Prevention plan and maintain a Special Investigations Unit to aid in the prevention of fraud. This law does not make allowance for claim responsibilities to be delegated to TPA's and as such, it is Oxford's responsibility to adequately monitor the fraud prevention activities of its TPA in order to assure that fraud prevention requirements are met.

It is recommended that Oxford ensure that all of its Third Party Administration Agreements establish appropriate specific standards for record retention It is further recommended that Oxford adequately monitor its TPAs in order to assure that fraud prevention requirements are met.

The Triad agreement establishes the requirement that, in the event that Oxford issues a corrective action request, that Triad submit a corrective action plan within 15 days. Oxford submitted such a request after an August 2003 visit. As of this report date, no such corrective action plan has been submitted.

It is recommended that the Oxford ensure that its Third Party Administrator Triad submit Corrective Action Plans within the time period established within their contract.

OHPNY also has a small number of agreements with Independent Practice Associations (IPA) whereby OHPNY pays IPA providers on a fee-for-service basis in return for which the providers care for Oxford members. None of the agreements transfers significant risk to the IPA and therefore are exempted from compliance with New York Insurance Department Regulation 164 (11 NYCRR 101) "Standards for financial risk transfer between insurers and health care providers."

H. Accounts and Records

OHPNY has an Administrative Services Agreement with Oxford whereby it performs administrative functions for OHPNY in return for a fee. As a result, in certain instances, revenues and expenses that were received or paid by the Parent or an affiliate are allocated to OHPNY having been received or paid by the Parent or an affiliate. Once allocated to OHPNY the costs are allocated to the appropriate line of business. Other charges are billed directly to the Plan.

A review was performed on two samples of allocations in order to ascertain their reasonableness. In one sample, expenses charged to medical expenses were reviewed. Results of that testing revealed the following:

- In one case, claim recoveries received from a provider as a result of an Oxford fraud investigation were applied to Commercial Large Groups. Oxford indicated that until June 2003, this had been a normal practice. As of that date, OHPNY's Special Investigations Unit established a procedure to provide direction as to the source of the funds so that they could be more properly allocated.

- In two cases, claim recoveries received from a provider as a result of Oxford's SIU investigation into upcoding errors were allocated to the Commercial Large Group line of business when they should have been allocated to all lines of business. OHPNY indicated that this had been a normal practice but that steps were being taken to properly allocate these revenues.
- In one case, a refund was received for claims expenses paid inappropriately to a non-participating laboratory. This refund, when received, was applied in whole to Commercial Large Groups.

Because these reductions in medical expenses are used to help establish rates for the various groups, improper allocations may result in some group members subsidizing the rates for other group members. For this reason, it is imperative that such allocations be made accurately.

It is recommended OHPNY take the necessary steps to ensure that all recoveries of medical expenses be applied to the appropriate lines of business.

The other sample of expenses that were examined consisted of administrative expenses. For these expenses, it was also noted that they were not being properly allocated among the various affiliates of the holding company. Examples include the following:

- Certain Provider Credentialing charges were applied to Oxford's two New York entities when such charges included providers in other states.
- Certain penalties and fines were allocated to all affiliates when such penalties could be traced to specific affiliates.

These allocations are contrary to the instructions provided within the NAIC Annual Statement instructions and are a violation of Parts 98.10(a) of the Administrative Rules and Regulations of the Health Department which states the following:

(a) Transactions within a holding company system to which a controlled HMO is a party shall be subject to the following guidelines:

(1) the terms of the financial transaction shall be fair and equitable to the HMO at the time of the transaction;
(2) charges or fees for services performed shall be reasonable; and
(3) expenses incurred and payments received shall be allocated to the HMO on an equitable basis in conformity with customary accounting practices consistently applied.

It is recommended that OHPNY document transactions in a manner that facilitates clear and accurate reporting and which will permit this Department to verify the correctness of the fees charged and the parties' adherence to the terms of the Agreement as required by Parts 98.10(a) of the Administrative Rules and Regulations of the Health Department.

OHPNY made several reporting errors in its 2002 Annual Statement as follows:

- Expenses were not properly allocated within Exhibit 3 of the Underwriting and Investment Exhibit. Examples of these misallocations include the following:
  - Investment expenses, although reported elsewhere in the Annual Statement exhibit, were not reported in the Underwriting and Investment Exhibit Part 3;
  - Utilization review expenses were allocated to General Administrative Expenses* and
  - Rather than establish the appropriate allocation between claim adjustment expenses and administrative expenses, OHPNY applied a set percent in each expense category.
  - Interest on claims paid under New York's Prompt Pay Law was listed as a General Administration Expenses when such expenses should be listed as Claims Adjustment Expense.

* Note: Effective 1/1/03 per Statutory Accounting Principle #85

It is recommended that OHPNY properly classify its accounts within its financial statements.

Oxford Health Plans Inc., the Parent, receives rebate checks for OHPNY from the Tobacco Control and Insurance Pool through its administrator, Excellus Central NY Region, for reimbursement under the Stop Loss Relief Program. These checks usually average several million dollars and are made payable by the pool administrator to Oxford, but also include an Oxford employee's name on the payee line. While no instances of improprieties were noted during the period under examination, the inclusion of an Oxford employee's name on the checks should be addressed.

It is recommended that OHPNY ask the pool administrator to delete any Oxford employee names from rebate checks.

I. Medco Strategic Alliance Agreement

On September 7, 2001, Oxford Health Plans, Inc. (OHPI) signed an Alliance Agreement (the "Agreement") with Merck-Medco Managed Care, L.L.C. ("Merck"). When Merck spun its subsidiary Medco Health Solutions Inc. ("Medco") off as a separate entity in 2003, Merck's rights and responsibilities under this agreement were also transferred to Medco. Medco also serves as the Plan's Pharmaceutical Benefits Manager ("PBM") under a separate agreement also executed on September 7, 2001.

The Agreement stipulates that OHPI was to receive $82.9 million in consideration of services, of which $50 million was allocated to ten years worth of Historical and Current claims information to be provided by OHPI.

The Department takes the position that in order to allow for the fair and equitable distribution of the payment proceeds based upon the use of data collected from claims submitted by policyholders its New York subsidiaries, such proceeds should be shared with subsidiaries Oxford Health Insurance, Inc. and Oxford Health Plans (NY) Inc.

It is recommended that OHPI provide an appropriate share of its revenue from the sale of claim information to Medco to be returned to the New York policyholders.

While not adopting the Department's position, OHPI has agreed to resolve the matter in a manner consistent with the Department's recommendation. The terms of the resolution will be incorporated in a separate Stipulation.

The Department also has questioned whether Oxford's sharing of claims data under the Agreement with Medco complies with Privacy Rules established under the federal Health Information Portability and Accountability Act of 1996 (HIPAA), which were effective on April 4, 2003.

Oxford's position, which is based on the advice of its outside counsel, is that distribution of the claims data in its existing format is acceptable as a "limited data set" under the Privacy Rules. HIPAA allows covered entities to disclose protected health information in the form of a limited data set, provided that such disclosure is for the purpose of research, health care operations, or public health activities. Oxford further notes that, as part of the Agreement, Medco has signed a Business Associate Agreement that mandates Medco maintain the confidentiality of the claims information provided under the Agreement.

The Department continues to question whether the shared information has been adequately de-identified by Oxford, and whether Medco's use of the data qualifies as research, health care operations, or public health activities as permitted under the HIPAA Privacy Rule for a "limited data set". The Department has also questioned whether the data provided under the terms of the Agreement, which contains extensive medical information, and which has been de-identified on a one-to-one basis (whereby claim numbers were replaced with a secondary set of numbers that are unique), can be compromised given that Medco's responsibilities as PBM give it access to the original claims information for any members purchasing medication under their Oxford contracts. In response Oxford again cited contractual provisions that require Medco to maintain the confidentiality of the claims information provided by OHPI under the Agreement.

As a result, the question of whether Oxford is in compliance with the Privacy Rules has been referred to the U.S. Department of Health and Human Services for their review.

3. FINANCIAL STATEMENTS

A. Balance Sheet

"The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002. This statement is the same as the balance sheet filed by the Company.

Assets	Plan	Examination	Difference
Bonds	$ 647,366,276	$ 647,366,276	$
Stocks:			
Common stocks	164,539,642	164,539,642	
Cash and short-term investments	146,764,424	146,764,424	
Receivable for securities	34,511	34,511	
Subtotals, cash and invested assets	958,704,853	958,704,853	
Accident and health premiums due and unpaid	22,021,641	22,021,641	
Health care receivables	7,370,527	7,370,527	
Investment income due and accrued	7,814,330	7,814,330	
Federal and foreign income tax recoverable and interest thereon	10,997,350	10,997,350	
Other nonadmitted assets			
Aggregate write-ins for other than invested assets	14,974	14,974	
Total assets	$ 1,006,923,675	$ 1,006,923,675	$
Liabilities			
Claims unpaid	$ 375,573,320	$ 375,573,320	$
Unpaid claims adjustment expenses	7,451,540	7,451,540	
Premiums received in advance	99,544,859	99,544,859	
General expenses due or accrued	2,072,984	2,072,984	
Federal and foreign income tax payable and interest thereon	55,296,335	55,296,335	
Amounts due to parent, subsidiaries and affiliates	4,315,007	4,315,007	
Payable for securities	6,630,990	6,630,990	
Total liabilities	$ 550,885,035	$ 550,885,035	$
Capital and surplus			
Common capital stock	50	50	
Gross paid in and contributed surplus	55,860,310	55,860,310	
Aggregate write-ins for other than special surplus funds	235,622,055	235,622,055	
Unassigned funds (surplus)	164,556,225	164,556,225	
Total capital and surplus	$ 456,038,640	$ 456,038,640	$
Total liabilities, capital and surplus	$ 1,006,923,675	$ 1,006,923,675	$

The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of OHPNY through 2001. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of OHPNY to any further tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses

Capital and Surplus increased $30,995,856 during the five year examination period, (January 1, 1998 through December 31, 2002) detailed as follows:

Income		
Net premium income	$ 15,825,343,591	
Aggregate write-ins for other health care related revenues	7,882,694	
Total revenues		$ 15,833,226,285
Expenses		
Hospital/medical benefits	$ 9,759,223,775	
Other professional services	33,668,730	
Outside referrals	33,317,797	
Emergency room and out-of-area	549,730,933	
Prescription drugs	1,354,716,821	
Aggregate write-ins for other medical and hospital	1,364,071,665	
Subtotal	13,094,729,721	
Net reinsurance recoveries (less)	(72,589,214)	
Total medical and hospital (less)	13,022,140,507	
Claims adjustment expenses (less)	394,599,131	
General administrative expenses (less)	1,588,404,445	
Total underwriting deductions		15,005,144,083
Net underwriting gain		$ 828,082,202
Net investment income earned		153,898,928
Net realized capital gains		34,224,212
Net investment gains		188,123,140
Net gain from agents' or premium balances charged off		1,021,943,617
Net income before federal income taxes		380,986,125
Federal and foreign income taxes incurred		291,028,365
Net income		$ 730,915,252

Capital and surplus as of December 31, 1997			$ 162,793,471
Net income	$ 730,915,252	$	
Change in net deferred income tax		(2,127,108)	
Change in nonadmitted assets	76,982,664		
Cumulative effect of changes in accounting principles	11,936,414		
Paid in (capital changes)	2,951,000		
Paid in (surplus adjustments)	220,041,747		
Dividends to stockholders		(787,100,000)	
Change in contingency reserves		(7,782,292)	
Other changes	$ 47,427,492		
	$ 1,090,254,569	$ (797,009,400)	
Net change in capital and surplus			293,245,169
Capital and surplus per examination as of December 31, 2002			$ 456,038,640

4. CLAIMS UNPAID

The examination liability of $375,573,320 is the same as the amount reported by OHPNY as of December 31, 2002.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in OHPNY's internal records and in its filed annual statements.

5. TREATMENT OF POLICYHOLDERS AND CLAIMANTS

A supplemental Report on Examination as of September 30, 2001, which detailed a review of the manner in which OHI conducted its business practices and fulfilled its contractual obligations to its policyholders and claimants was filed November 20, 2002.

6 SUMMARY OF PREVIOUS COMMENTS AND RECOMMENDATIONS

ITEM	PAGE NO.
A. Financial Status- Impairment	
As a result of this examination, on August 7, 1998, Oxford agreed to reflect the changes recommended by this report with respect to non-admitted assets on its quarterly statement to be filed with this Department on August 15, 1998. The $152,000,000 capital contribution consisted of $125,688,254 to address OHPNY's financial condition as of December 31, 1997, and $26,311,746 to address losses recognized by OHPNY in the second quarter of 1998. After giving recognition to this contribution, OHPNY's statutory net worth as of December 31, 1997, meets the "Contingent Reserve Fund/Escrow Deposit" requirements of Parts 98.11(d) and (e) of the Administrative Rules and Regulations of the Health Department.	1,41,61
The Company has complied with this recommendation.	
B. Conduct of Examination	
i. It is recommended that OHPNY continue its efforts to comply with Sections 310(a)(2) and (a)(3) of the New York Insurance Law and provide requested information in a timely and complete manner.	8
The Company has complied with this recommendation.	
ii. It is recommended that more efficient procedures in gathering information be put in place to expedite future examinations	8
The Company has complied with this recommendation.	
C. Holding Company System	
i. It is recommended that the Plan report transactions regarding its holding company system properly in its filings with this Department and that documentation be maintained to support these transactions.	17
The Company has complied with this recommendation.	

ITEM		PAGE NO.
ii.	It is recommended that the Plan report its inter-company account balances on an entity-specific basis. The Company has complied with this recommendation.	17
iii.	It is recommended that the Plan perform timely reconciliations of its inter-company accounts and that they be settled timely and in accordance with underlying agreements and applicable statutes. The Company has complied with this recommendation.	17
D.	Administrative Services Agreements	
i.	It is recommended that the Plan act in compliance with Part 98.11(a) of the Administrative Rules and Regulations of the Health Department. The Company complied with this recommendation.	19
ii.	It is recommended that the Plan document transactions in a manner that facilitates clear and accurate reporting and which will permit this Department to verify the correctness of the fees charged and the parties' adherence to the terms of the Agreement as required by Parts 98.10(a)(1),(a)(2), and (b) of the Administrative Rules and Regulations of the Health Department. The Company has complied with this recommendation.	20
iii.	It is recommended that the Plan comply with Part 98.11(b) of the Administrative Rules and Regulations of the Health Department. The Company complied with this recommendation.	22
iv.	It is recommended that procedures be implemented so that any securities used to pay debts to OHPNY be valued at "market", and in compliance with all applicable statutes, including Article 14 of the New York Insurance Law. The Company complied with this recommendation.	22

ITEM		PAGE NO.
v.	It is recommended that procedures be implemented to prevent large balances from accumulating in the inter-company accounts, and/or if a large balance does accumulate, it should be resolved in an equitable (payment of interest) and timely manner. The Company complied with this recommendation.	22
vi.	It is recommended that the inter-company accounts be settled in full, and in compliance with the provisions of inter-company agreements and all applicable statutes. The Company complied with this recommendation.	22
vii.	It is recommended that OHPNY act in compliance with its Agreement and determine if any funds are due it under the terms of the Agreement. The Company has complied with this recommendation.	23
viii.	It is recommended that the Plan require its certified public accountants to determine compliance with the terms of its Agreement on an annual basis. The Company has complied with this recommendation.	24
ix.	It is recommended that the Plan meet the requirements of Part 98.11(a) of the Administrative Rules and Regulations of the Health Department. The Company has complied with this recommendation.	25
x.	It is recommended that the aforementioned inter-company accounts be settled in full and in compliance with the provisions of the Agreement. The Company has complied with this recommendation.	26

ITEM		PAGE NO.
xi.	It is recommended that the Plan notify the Superintendent of all changes to its Exhibit A, so that the Superintendent may decide whether any change is "material" pursuant to Part 98 of the Administrative Rules and Regulations of the Health Department. The Company has complied with this recommendation.	27
xii.	It is recommended that the Plan put in place formal documented policies, procedures, and performance standards, and a procedure for determining that they are being complied with. The Company has complied with this recommendation.	27
E.	Reinsurance	
	It is recommended that the Plan verify that its new reinsurance agreement includes the above referenced wording, as well as any other provisions mandated by this Department and the Department of Health. The Company has complied with this recommendation.	30
F.	Abandoned property law	
	It is again recommended that the Company make the required filings under the captioned Law. The Company has complied with this recommendation.	30
G.	Audited Financial Statements	
	It is recommended that a separate management letter be issued for OHPNY, and that these letters be reviewed by its board members and any appropriate committees. The Company has complied with this recommendation.	31

ITEM		PAGE NO.
H.	Disaster Recovery Plan	
	It is recommended that OHPNY implement a plan for the conduct of business and the continuity of management in the event of a catastrophic fire or other disaster. Consideration should also be given to the adoption of emergency by-laws.	33
	The Company has complied with this recommendation.	
I.	Record Keeping and Reporting	
i.	It is recommended that OHPNY maintain sufficiently detailed internal records which can be used to support all the information reported in its quarterly and annual statements filed with this Department.	37
	The Company has complied with this recommendation.	
ii.	It is recommended that Oxford implement a general ledger system that would allow information on a subsidiary level basis to be more easily determined and documented.	37
	The Company has complied with this recommendation.	
J.	Premiums Receivable	
i.	It is recommended that the Plan develop the capacity to generate additional reports, such as an improved premium aging report, to assist verification by its management, external auditors, and this Department, of the premiums receivable ledger asset, and to enhance the Plan’s collection procedures. Therefore, it is recommended that the Plan’s independent auditors specifically report on this matter as part of its engagement for the year-end 1998 audit.	39-40
	The Company has complied with this recommendation.	
ii.	It is recommended that the Plan better document the adjustments to its premiums receivable account so that they can be verified, tested for reasonableness, and used by management to analyze the accuracy of its accounts and determine the adequacy of its collection practices	40
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
iii.	It is recommended that the Plan delete groups/policyholders from its billing system upon termination of the policy to enhance the accuracy of its premiums receivable asset. The Company has complied with this recommendation.	40
iv.	It is recommended that the Plan comply with the *NAIC Accounting Practices and Procedures Manual for Health Maintenance Organizations* by calculating its premiums more than 90 days past due as "not-admitted assets". The Company has complied with this recommendation.	40
K.	Claims Payable	
i.	It is recommended that the Plan separate its "negative Liabilities" and "non-claim liabilities" from its reserve for "reported claims in process of adjustment" and its "incurred but not reported" ("IBNR") claims The Company has complied with this recommendation.	57
ii.	It is recommended that the Plan audit the information provided by its pharmacy administrator, PCS. The Company has complied with this recommendation.	57
L.	Other Current Liabilities	
	It is recommended that the Plan segregate from its "Claims payable" liability any amount not deemed to be "reported claims in process of adjustment" and/or "incurred but not reported" (IBNR) claims. Further, the Plan should set-up its "negative accounts payable" as assets, and value them accordingly. The Company has complied with this recommendation.	58

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that OHPNY immediately withdraw its blanket approval for future dividends and ensure that all dividend requests are submitted to the board of directors for approval on a case by case basis. It is noted that the Company has complied with this recommendation.	5
ii.	It is recommended that minutes be kept of all official meetings of the board of directors or the committees thereof.	5
B.	Reinsurance	
i.	It is recommended that OHPNY discontinue reporting its conversion program with Celtic Insurance Company as reinsurance in Schedule S. It is noted that the Company has complied with this recommendation.	7
C.	Investment Activities	
i.	It is recommended that OHPNY comply with New York Insurance Law §1404(a)(10)(B)(i) and ensure that it does not invest more that 10% of its admitted assets in the securities of any one institution. It is noted that the Company has complied with this recommendation.	10
ii.	It is recommended that OHPNY's investment guidelines be rewritten to clearly specify the types of investments that are permitted.	11
iii.	It is recommended that OHPNY remove the responsibility for final approval of financial transactions from the responsibility of providing financial direction to the custodian.	11

Respectfully submitted,

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Bruce E. Borofsky,
Associate Examiner

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

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

____

Bruce E. Borofsky

Subscribed and sworn to before me
this _____ of _____________ 2004.

Appointment No. <u>*22078*</u>

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ***GREGORY V. SERIO*** , Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Bruce Borofsky

as a proper person to examine into the affairs of the

Oxford Health Plans (NY), Inc.

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

Company

with such information as he shall deem requisite.

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

this *3rd* day of *July 2003*

Gregory V. Serio
Superintendent of Insurance