

REPORT ON EXAMINATION
OF THE
MVP HEALTH SERVICES CORPORATION
AS OF
DECEMBER 31, 1999

DATE OF REPORT

DECEMBER 17, 2001

EXAMINER

JOSEPH S. KRUG

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

December 17, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 21522, dated April 10, 2000, annexed hereto, I have made an examination into the financial condition and affairs of the MVP Health Services Corporation as of December 31, 1999 at its home office located at 111 Liberty Street, Schenectady, New York 12305. The following report thereon is respectfully submitted.

Wherever the terms "the Plan" or "MHSC" appears herein without qualification they should be understood to refer to MVP Health Services Corporation.

1. SCOPE OF EXAMINATION

The Plan was previously examined as of December 31, 1994. This examination covers the period from January 1, 1995 through December 31, 1999. The examination was conducted at the home office of the Plan in Schenectady, New York. 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, 1999, a review of income and disbursements to the extent deemed necessary to accomplish such verification, and utilized to the extent considered appropriate, work performed by the Plan's independent certified public accountants. A review or audit was also made of the following items:

- History of the Plan
- Management of the Plan
- Corporate records
- Fidelity bonds and other insurance
- Officers' and employees' welfare and pension funds
- Territory and plan of operations
- Growth of the Plan
- Accounts and records
- Loss experience
- Treatment of subscribers

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

MVP Health Services Corporation was incorporated on October 8, 1992 and filed its Certificate of Incorporation with the State of New York, Department of State on October 16, 1992.

The Plan is incorporated under Section 402 of the Not-for-Profit Corporation Law and licensed under Article 43 of the New York Insurance Law as a not-for-profit health service corporation. The Plan provides health insurance to indemnify subscribers for the cost of hospital and medical services rendered to them.

The Plan is a type D corporation as defined in Section 201 of the Not-for-Profit Corporation Law. Its sole member is MVP Health Plan, Inc., a not-for-profit corporation operating as a health maintenance organization (HMO) as defined in Article 44 of the Public Health Law.

A. Management

The Plan's by-laws provide that, except for the initial board of directors appointed by the incorporators of the Plan, the board shall consist of not less than three nor more than nineteen directors, the exact number to be determined by resolution of the board of directors from time to time.

As of December 31, 1999, the board of directors consisted of nine members as set forth below:

Name and Residence

Principal Business Affiliation

(a) Provider Representative (1)

Herschel Lessin, MD
Poughkeepsie, New York

Vice President,
Hudson Valley Pediatric Group PC

(b) Public Members (2)

Karen B. Johnson
Schenectady, New York

Director of Development,
Proctors Theatre

Jon Rich
Alplaus, New York

Retired

(c) Subscriber Members (5)

Lou Buhmaster
Scotia, New York

President,
First National Bank of Scotia

S. Larry Feldman
Niskayuna, New York

President,
CFK Life Plans, Inc.

Murray M. Jaros, Esq.
Niskayuna, New York

Attorney

Leland C. Tupper
Schenectady, New York

Treasurer,
MVP Health Services, Inc.

Mary Militano, Esq.
Scotia, New York

Attorney

(d) Officer-Employee (1)

David W. Oliker
Charlton, New York

President,
MVP Health Plan, Inc.

At December 31, 1999, there were five subscriber members and two public members on the board of directors. Section 4301(k)(1)(A)and(B) of the New York Insurance Law provides that after

consideration of other classes of directors (physician/provider representatives and employees) there be equal representation relative to subscriber and public representatives on the board of directors.

It is recommended that the number of directors on the Plan's board representative of subscribers and the number of directors representative of the public be as equal as possible in compliance with Section 4301(k)(1)(A)and(B) of the New York Insurance Law.

The examiner reviewed the minutes of the meetings of the board of directors and its various committees for the five-year period under review and noted that such meetings were well attended.

The principal officers of the Plan as of December 31, 1999 were as follows:

<u>Name</u>	<u>Title</u>
David W. Olikier	President
Murray M. Jaros, Esq.	Secretary
Leland C. Tupper	Treasurer

B. Territory and Plan of Operation

On June 14, 1993, the Plan was issued a license to operate an insurance company pursuant to Article 43 of the Insurance Law of New York State.

The direct payment open enrollment product is a basic hospital and medical plan. It is the only product marketed by the Plan.

The Plan began enrolling subscribers effective October 1, 1993. As of December 31, 1999 the Plan had 116 subscribers.

As of December 31, 1999, the Plan's service area included the following five regions:

<u>Region</u>	<u>Counties</u>
Central Region	Herkimer, Madison, Oneida, Lewis and Onondaga
East Region	Albany, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, Washington, and Warren
Mid-Hudson Region	Dutchess, Ulster and Orange
North Region	Clinton, Essex, Franklin, and St. Lawrence
South Central Region	Broome, Chenango, Delaware, Otsego, and Tioga

C. Reinsurance

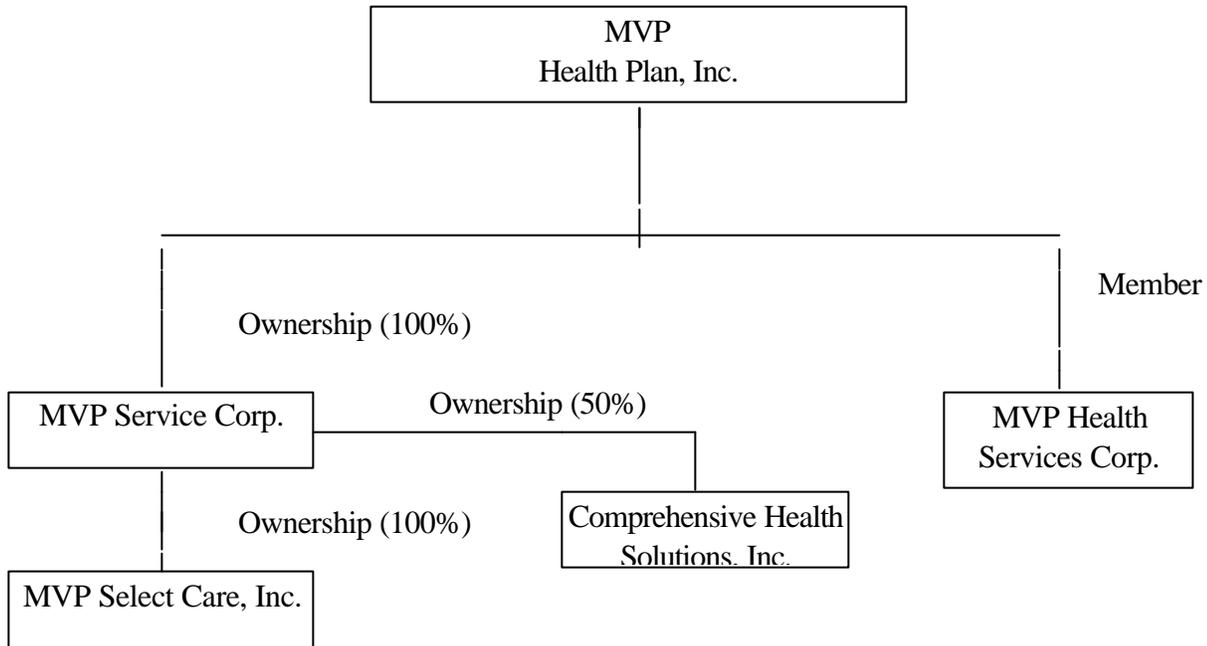
The Plan did not assume any reinsurance during the five year period covered by this examination.

At December 31, 1999, the Plan had a ceding reinsurance agreement with an accredited reinsurer. The agreement requires the reinsurer to pay 90% of all hospital inpatient, skilled-nursing facility, home health agency and rehabilitation charges in excess of \$40,000 with an average daily maximum of \$3,000 for hospital inpatient and a maximum of \$500 a day for charges pertaining to skilled nursing facilities, home health agencies and rehabilitation facilities, not to exceed 30 days combined per agreement period.

The agreement applies to all members of the Plan. The annual maximum reinsurance benefit is \$2,000,000 per member with a lifetime maximum of \$2,000,000 per member. All reinsurance contracts effected during the examination period were reviewed and were found to contain the necessary clauses required by statute, including the insolvency clause required by Section 1308 of the New York Insurance Law.

D. Holding Company System

The following chart depicts the Plan in relationship to its parent and affiliated companies as of December 31, 1999:



E. Management Agreements

On May 5, 1993, the Plan executed a consulting agreement with its affiliate, MVP Service Corporation ("MVPSC"), wherein various services are to be provided to the Plan by MVPSC. These services include financial and accounting services, provider recruitment and contracting, utilization review services, claims administration, legal services, recommending new benefit packages and changes to existing benefit packages and overall administration. The Plan reimburses MVPSC based on the actual cost incurred by MVPSC. The agreement has been approved by this Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet filed by the Plan in its annual statement filed with the Department as of December 31, 1999.

<u>Assets</u>	<u>Ledger</u>	<u>Non Ledger</u>	<u>Not Admitted</u>	<u>Net Admitted</u>
Cash	\$ 70,964	\$ 0	\$ 0	\$ 70,964
Uncollected premiums	112,360	0	0	112,360
Amounts recoverable from reinsurers	53,487	0	0	53,487
Receivable from parent, subsidiaries, and affiliates	3,013,737	0	0	3,013,737
Prepaid expenses	<u>16,964</u>	<u>0</u>	<u>16,964</u>	<u>0</u>
Total assets	<u>\$3,267,512</u>	<u>\$ 0</u>	<u>\$16,964</u>	<u>\$3,250,548</u>
 <u>Liabilities</u>				
Claims unpaid				\$524,237
Unpaid claims adjustment expenses				4,732
Federal income taxes				16,400
Other expenses due or accrued				<u>67,388</u>
Total liabilities				<u>\$612,757</u>
 <u>Net Worth</u>				
Section 1307 loan				\$1,070,000
Statutory reserves				195,311
Unassigned funds				<u>1,372,480</u>
Total net worth				<u>\$2,637,791</u>
Total liabilities and net worth				<u>\$3,250,548</u>

Note 1: No liability appears in the examination balance sheet relative to a loan in the amount of \$1,070,000 and interest accrued thereon of \$909,947. The loan was granted pursuant to the provisions of Section 1307 of the New York Insurance Law. As provided in Section 1307, repayment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent of Insurance of the State of New York.

Note 2: Since the inception of the Plan on October 8, 1992, the Internal Revenue Service has not made any audits of the Plan. The examiner is unaware of any potential exposure of the Plan to any tax assessment and no liability has been established herein relative to any contingency.

B. Statement of Revenues and Expenses

Net worth increased \$1,821,428 during the period under examination, January 1, 1995 through December 31, 1999, detailed as follows:

Revenues

Premiums earned	\$12,931,632	
Interest income	<u>397,817</u>	
Total revenues		\$13,329,449

Expenses

Losses incurred	\$9,280,885	
Loss expenses incurred	1,027,519	
Other underwriting expenses incurred	<u>1,220,874</u>	
Total expenses		\$11,529,278
Net income from operations		<u>\$1,800,171</u>

NET WORTH

Net worth per report on examination as of December 31, 1994		\$816,363
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Increase
(Decrease) in
Net Worth

Net income from operations	\$1,800,171	
Change in non-admitted assets	<u>21,257</u>	
Total increase in net worth		1,821,428

Net worth per report on examination as of December 31, 1999

\$2,637,791

4. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to subscribers and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The general review was directed at practices of the Plan in the following major areas:

- A) Sales and advertising
- B) Underwriting and rating
- C) Treatment of policyholders and claimants

No problem areas were encountered during the review.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The examiner reviewed the Plan's compliance with the following four comments contained in the prior report on organization (page numbers refer to the prior report):

<u>Item</u>	<u>Page No.</u>
<p>A. It is recommended that the Plan comply with its filed by-laws as regards the election of directors.</p> <p>The Plan has complied with this recommendation.</p>	3
<p>B. It is recommended that in the future the Plan comply with the requirements of Section 4301(k)(2)(B) of the New York Insurance Law by notifying the Department, in writing, within ten days after a vacancy in the board of directors exists.</p> <p>The Plan has complied with this recommendation.</p>	5
<p>C. It is recommended that the Plan comply with the requirements of Section 4301(k)(1)(D) of the New York Insurance Law by appointing an executive committee.</p> <p>The Plan has complied with this recommendation.</p>	6
<p>D. It is recommended that the Plan not take admitted asset credit for assets not admitted pursuant to Section 1302 of the New York Insurance Law.</p> <p>The Plan has complied with this recommendation.</p>	17

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>Item</u>		<u>Page No.</u>
A.	It is recommended that the number of directors on the Plan's board representative of subscribers and the number of directors representative of the public be as equal as possible in compliance with Section 4301(k)(1)(A)and(B) of the New York Insurance Law.	5

Respectfully submitted,

Joseph S. Krug
Associate Insurance Examiner

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

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

Joseph S. Krug

Subscribed and sworn to before me
this ____ day of _____ 2001.

Appointment No. 21522

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Joseph S. Krug

as a proper person to examine into the affairs of the

MVP Health Services Corporation

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

Company

with such other information as he shall deem requisite.

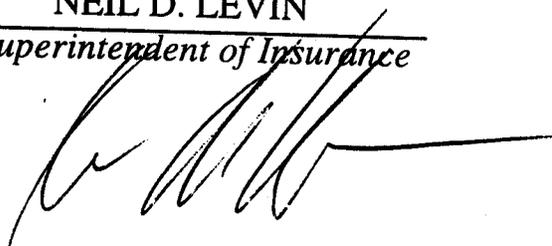
In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,

this 10th day of April 2000



NEIL D. LEVIN

Superintendent of Insurance


(by) Deputy Superintendent