REPORT ON EXAMINATION

OF

VYTRA HEALTH SERVICES, INC.

AS OF

DECEMBER 31, 1998

DATE OF REPORT	**MAY 4, 2001**
AMENDED DATE	**MARCH 14, 2002**
EXAMINER	**BARBARA A. FINNERTY**

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

March 14, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 10004

Sir:

Pursuant to the provisions of the New York Insurance Law and acting in accordance with instructions contained in Appointment Number 21269 dated May 11, 1998, annexed hereto, I have made an examination into the financial condition and affairs of Vytra Health Services, Inc. as of December 31, 1998. The financial condition examination was conducted at the Company's, home office located at Corporate Center, 395 North Service Road, Melville, New York 11747. The following report is respectfully submitted.

Wherever the terms "the Company", or "VHS" appear herein without qualification, they should be understood to indicate Vytra Health Services, Inc.

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1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the period from January 1, 1996 through December 31, 1998 and is limited in its scope to a review or audit of only those balance sheet items determined to require analysis, verification, or description. The foregoing determination was made in accordance with the National Association of Insurance Commissioner ("NAIC") Financial Condition Examiners Handbook. The examination was conducted in accordance with statutory accounting principles (SAP) and included a review of income and disbursements deemed necessary to accomplish the verification of assets and liabilities. In addition, the examination utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of the Company
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Loss experience
Reinsurance
Accounts and records
Treatment of policyholders

A review was also made to determine whether the Company performed any actions regarding the comments and recommendations contained in the prior report on examination.

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

2. DESCRIPTION OF THE COMPANY

Vytra Health Services, Inc. (formerly CCLI Health Services Corporation) is a not-for-profit health service corporation that provides health insurance to indemnify subscribers for the cost of hospital and medical services rendered to them. The Company was incorporated on September 19, 1989 and commenced business October 1, 1995. The Company was licensed under Article 43 of the Insurance Law as a not-for-profit health service corporation. CCLI Health Services Corporation was renamed Vytra Health Services, Inc. effective July 31, 1996.

The Company is a Type B Corporation defined under Section 102(a)(5) of the Not-for-Profit Corporation Law, whose sole member is Vytra Healthcare Long Island, Inc. a not-for-profit corporation operating as a health maintenance organization (HMO) as defined in Article 44 of the Public Health Law. Initial donated capital consisted of $1,500,000, which was obtained through a Section 1307 loan from the sole member, Vytra Healthcare Long Island, Inc.

Vytra Healthcare Long Island, Inc. was renamed Vytra Health Plan Long Island, Inc. effective November 1996.

A. Management

The by-laws of the Company provide that its affairs are to be managed by a board of directors consisting of eight persons. New York Insurance Law section 1201(a)(5)(B)(v) requires that the corporate charter must fix the number of directors at no less than thirteen. New York Insurance Law section 1201(a)(5)(B)(v) states as follows:

> The corporations proposed charter shall state:
> (v) the number of directors, or that it shall be not less than a stated minimum nor more than a stated maximum. …the number of directors shall not be less than thirteen...

Contrary to New York Insurance Law section 1201(a)(5)(B)(v) Vytra only has 8 Directors at December 31, 1998.

It is recommended that the Company comply with New York Insurance Law section 1201(a)(5)(B)(v) and maintain the number of board members at no less than thirteen.

At December 31, 1998 the board of directors was comprised of the following eight members:

Name and Residence	Principal Business Affiliation
Arthur R. Goshin, M.D. Buffalo, New York	President & C.E.O. Health Care Plan
David S. Reynolds, Ph.D. Melville, New York	President Vytra Health Plans Long Island, Inc.
Samuel S. Rabkin, Esq. Buffalo, New York	General Counsel Health Care Plan
John T. Lane Garden City, New York	Retired
George J. Farrell, Jr. Uniondale, New York	Partner Farrel, Fritz, Caemmerer, Cleary, Barnoky & Armentano
Charles M. Strain, Esq. Uniondale, New York	Farrel, Fritz, P.C.
Thomas J. McAteer, Jr. Melville, NY	Executive Vice President & C.O.O. Vytra Health Plans Long Island, Inc.
Robert Ludwig Buffalo, NY	Sr. Director for Plan Development Health Care Plan

During the period under examination, the board of directors held fourteen meetings. Meetings were generally well attended.

The principal officers of the Company as of the date of examination were as follows:

Name	Title
Arthur R. Goshin, M.D.	Chairman
David S. Reynolds, Ph.D.	Chief Executive Officer & President
Samuel S. Rabkin	Secretary
Philip Gandolfo	Treasurer

B. Territory and Plan of Operation

The Company provides health coverage for residents of Nassau, Queens and Suffolk counties in the State of New York. The Company offers point-of-service (POS) contracts, and experience rated health insurance contracts. The POS contract can be issued as a stand-alone contract and added to an HMO contract issued by the affiliated entity, Vytra Health Plans Long Island, Inc. as an endorsement. The POS product can also be combined with an HMO contract issued by the affiliated entity, Vytra Health Plans Long Island, Inc. to form a wrap-around product that is marketed as a separate and distinct contract (i.e. Maxaccess). In either case, the subscriber can choose to receive in-network benefits from the HMO's network of providers subject to co-payment for most services, or a subscriber can choose to access out-of-network benefits through the POS option. When the subscriber accesses out-of-network benefits through the POS contract the subscriber is subjected to coinsurance, deductibles, and reimbursed based upon a Usual, Customary and Reasonable ("UCR") fee schedule.

Enrollment

Enrollment is available to both groups and individuals. Enrollment activity during the examination was as follows:

Enrollment and Terminations:	1996	1997	1998
Number of Participants – beginning of the year	33,265	49,341	57,792
Net Gain	16,076	8,451	137
Number of Participants – end of year	49,341	57,792	57,929

C. Statutory Reserve

A health service corporation subject to Article 43 of the New York Insurance law is required to maintain a statutory reserve fund pursuant to the requirements of New York Insurance Law section 4310(d). Vytra Health Services Inc. was required to maintain a statutory reserve of $1,172,734 as of December 31, 1998.

D. Reinsurance

The Company has an excess of loss contract with an authorized reinsurer. The retention varies for the Medicare line of business and the commercial line of business. A summary of the reinsurance program is as follows:

Term of Agreement (Incurral Period)	1/1/98 –12/31/98
Coverage	Inpatient Hospitalization & Transplant
Retention	Commercial HMO, PPO, POS - $100,000 Medicare - $50,000
Coinsurance	90%
Per Diem Limitation	$2,000 length of stay(s)
Reporting Period	Within 18 months of beginning of agreement (up to 6/30/99)
Limits of Coverage	$1,000,000 per member per year
Insolvency	$5,000,000 aggregate maximum coverage
Carryover	31 days
Conversion	Yes
Experience Refund	If the contract is renewed: 50% premium paid (minus expenses of 20%) over claims paid

The hospital coverage provided by this agreement is as follows:

Covered Expenses	Covered Expense Limits
Hospital in-patient services Out-of–Area, Referral and Emergency, In area	90% of Eligible Hospital Expenses incurred by covered persons subject to the following limitation: $2,000 maximum average per day coverage per confinement.

The agreement includes continuation of benefits provision within its insolvency protection language. This provision requires the reinsurer cover Vytra members who are confined to an inpatient facility with certain limitations. It also requires prospective continuation of benefits, for up to thirty-one days, for all Vytra members who have paid their contract premium.

A review of the reinsurance contract revealed the application of an aggregate limit of liability of $5,000,000 to the insolvency protection afforded under the continuation of coverage provision. Although the Insurance Department does not require the Plan to obtain reinsurance coverage, the Department views reinsurance in general, and continuation of benefits provisions in particular, as an additional layer of protection for the Plan's members against impairment and insolvency. In Vytra's case the potential liability for covering members for up to thirty days beyond insolvency is far in excess of the $5 million limitation included in the reinsurance contract, in effect negating the continuation of coverage provision.

In addition, to the above, the agreement does not contain insolvency language that would meet the Department's criteria for approval. New York Insurance Law Section 1308(a)(2)(A) provided that no credit for reinsurance shall be allowed unless:

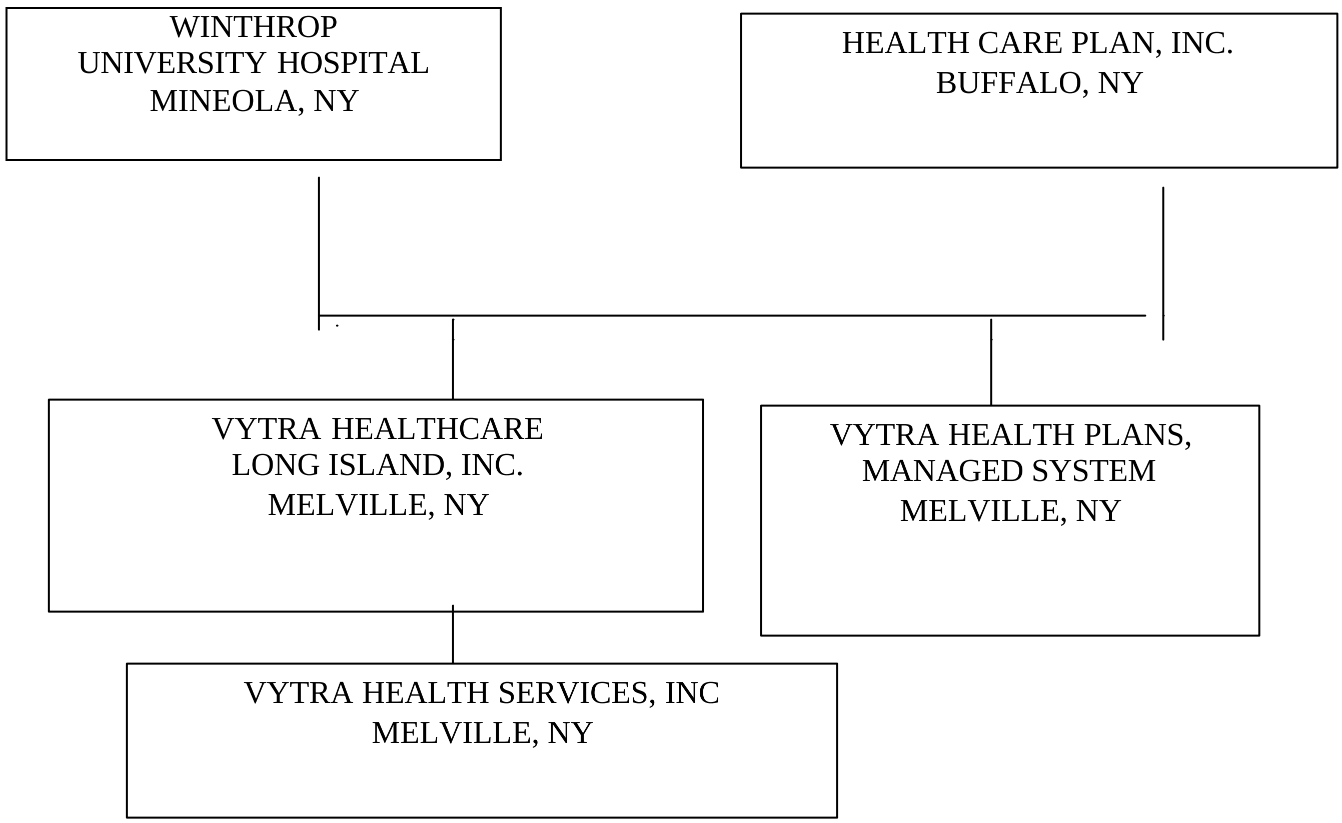
(i) *the reinsurance shall be payable by the assuming reinsurer on the basis of the liability of the ceding reinsurer under the contract reinsured without diminution because of the insolvency of the ceding insurer.*

This provision, or its equivalent, is required in all contracts of reinsurance. It is not clear from the language in the insolvency provision of Vytra's reinsurance contract that this requirement is met.

It is recommended that the reinsurance contract be amended to conform to the requirements of Section 1308(a)(2)(A)(i) of the New York Insurance Law.

D. Holding Company System

The following chart depicts the relationship of the Company to its parent and affiliated companies as of the examination date:



F. Custodial Agreement

During the period covered by this examination, the Company's investments were deposited with Chase Manhattan Bank. However, there was no formal, written custodial agreement between the parties defining the bank's responsibilities and duties as depository of these securities.

It is recommended that the Company enter into a formal custodial agreement with the bank that contains, at a minimum, protective covenants and provisions suggested by this Department.

The Company is in agreement with the recommendation and is taking the appropriate steps to correct this deficiency.

G. Accounts and Records

In the course of the examination, the examiners reviewed the manner in which accounts are maintained and reported in its filed Annual and Quarterly statements. Deficiencies were noted in the following areas:

Certain Annual and quarterly statement exhibits were not prepared consistently from year to year nor completed in accordance with the NAIC HMDI Annual Statement Instructions as follows:

- In the quarterly New York Data Requirements statements filed during 1998, the company reported some IBNR reserves as part of its paid claims reflected in Exhibit 3 - Quarterly Unpaid Claims Development Schedule.

- Monthly capitation payments were improperly reflected in accounts payables (trade payable) rather than as claims payable.

- Claims approved for payment were improperly reclassified to the accounts payable account from claims payable.

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, 1998. This statement is the same as the balance sheet filed by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Net-Admitted Assets
Cash and cash equivalents	$ 3,614,035	$	$	$ 3,614,035
Short-term investments	6,465,553			6,465,553
Uncollected premium	351,720			351,720
Accrued interest receivable	116,054			116,054
Receivable from parent	1,660,034			1,660,034
Total assets	$ 12,207,396	$ 0	$ 0	$ 12,207,396

Liabilities	Examination
Claims unpaid	$ 8,786,326
Federal income taxes	(266,789)
Other expenses	358,703
Amounts due to affiliates	1,805,677
Total liabilities	$ 10,683,917
Statutory reserve	1,172,734
Unassigned funds	350,745
Total reserves and unassigned funds	1,523,479
Total liabilities, reserves, and unassigned funds	$ 12,207,396

Note: The Internal Revenue Service ("IRS") has not conducted any audits of the Company. Any potential exposure due to income tax assessments that may arise as a result of an IRS audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $215,733 during the three-year examination period, January 1, 1996 through December 31, 1998, detailed as follows:

Statement of Income

Underwriting Income				
Premiums earned			$	117,273,366
Deductions:				
Claims incurred	$	98,612,815		
Administrative expenses		20,239,317		
Total underwriting deductions				118,852,132
Net Underwriting loss			$	(1,578,766)
Investment Income				
Net investment income earned	$	654,396		
Net realized capital gains		0		
Net investment gain				654,396
Net income (loss) before federal income taxes				(924,370)
Federal income taxes incurred				182,190
Net income (loss)			$	(742,180)

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Reserves and unassigned funds per report on Examination as of December 31, 1995			$ 1,739,235
Net loss		$ (742,180)	
Change in non-admitted	$ 526,447		
Total gains and losses	$ 526,447	$ (742,180)	
Change in reserve and unassigned funds			(215,733)
Reserves and unassigned fund per report on Examination as of December 31, 1998			$ 1,523,502

4. CLAIMS PAYABLE

The examination liability of $8,927,024 is $140,698 more than the $8,786,326 reported by the Company in the filed annual statement as of December 31, 1998. The examination reserve for claims unpaid were determined based upon a one-year loss development through December 31, 1999. This determination resulted in a deficiency in the reserves amounting to $140,698. However, no examination change was made because the difference was immaterial.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained four comments and recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company institute procedures requiring its officers and directors to annually disclose material conflicts of interest .	5
	The Company has complied with this recommendation.	
B.	Investments	
	It is recommended that the Company establish an investment policy.	7
	The Company has complied with this recommendation.	
	It is recommended that the Company enter into a custodial agreement with its bank, containing at a minimum, the protective covenants and provisions suggested by the Insurance Department	7
	The Company has not complied with this recommendation and it is repeated herein	
C.	Abandoned Property Law	
	It is recommended that the Company file the required reports underlying the requirements of Section 1316 of the New York State Abandoned Property Law.	7
	The Company has complied with this recommendation.	

6 SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company comply with New York Insurance Law section 1201(a)(5)(B)(v) and maintain the number of board members at no less than thirteen.	3
B.	Reinsurance	
	It is recommended that the reinsurance contract be amended to conform to the requirements of Section 1308(a)(2)(A)(i) of the New York Insurance Law.	8
C.	Custodial Agreement	
	It is recommended that the Company enter into a formal custodial agreement with the bank that contains, at a minimum, protective covenants and provisions suggested by this Department.	10
	The Company is in agreement with the recommendation and is taking the appropriate steps to implement it.	10