

**REPORT ON ORGANIZATION**

**OF**

**NORTH SHORE-LIJ INSURANCE COMPANY INC.**

**AS OF**

**JULY 16, 2013**

**DATE OF REPORT**

**JULY 19, 2013**

**EXAMINER**

**EDOUARD MEDINA**

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

July 19, 2013

Honorable Benjamin M. Lawskey  
Superintendent of Financial Services  
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 31013, dated July 2, 2013, and attached hereto, I have made an examination “on organization” of North Shore-LIJ Insurance Company Inc. and the following report thereon is respectfully submitted.

The examination was conducted at the office of North Shore-LIJ Insurance Company Inc. located at 145 Community Drive, Great Neck, New York 11021.

Wherever the designations the “Company” or “North Shore” appear herein, without qualification, they should be understood to indicate North Shore-LIJ Insurance Company Inc.

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

## **1. ORGANIZATION**

North Shore-LIJ Insurance Company Inc. filed a Uniform Certificate of Authority Application ("UCAA") for licensure as a New York Insurance Law Article 42 Accident and Health insurer with the New York State Department of Financial Services on April 11, 2013. The Company was incorporated on March 28, 2013 in the State of New York. The Company plans to offer, via an Exclusive Provider Organization ("EPO") arrangement, health insurance plans equivalent to those approved as Qualified Health Plans ("QHP") on the New York Health Benefit Exchange (the "Exchange") directly to individuals and small employer groups and outside the Exchange directly to large groups, and to those purchasers who wish to purchase coverage directly and forego premium and tax credit subsidies for insurance available only through the Exchange. The Company's projected service areas include New York, Queens, Richmond, Nassau and Suffolk Counties in New York State.

The Company's by-laws stipulates that the number of directors, which shall constitute the whole Board of Directors, shall be fixed from time to time by the Board of Directors, consistent with the provisions of the Company's Charter. North Shore's Charter states that the Company shall have no less than seven (7) and no more than twenty (20) directors. As of the date of this examination the Board consisted of 14 members.

The Charter further specifies that the Company's Board of Directors' annual meeting shall be held on the first Thursday of the month of June. A review of the minutes of the Board of Directors meetings revealed that the board met twice thus far in 2013, on May 28th and June 26th. Therefore, as regards the Board of Directors' annual meeting, the Company did not comply with its Charter.

It is recommended that the Company comply with the terms of its Charter and hold the Board of Directors' annual meeting on the first Thursday of the month of June.

As of the date of this examination, the fourteen (14) members of the Board of Directors were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roger Blumencranz Brookville, NY	President, BWD Group LLC
Jeremy Boal, M.D. New York, NY	Senior Vice President and Chief Medical Officer, Mount Sinai Hospital
Mark Claster Roslyn, NY	President, Carl Marks and Co., Inc.
Michael Dowling Northport, NY	President & Chief Executive Officer, North Shore Long Island Jewish Health System, Inc.
Michael Epstein Sands Point, NY	Partner, Weil Gotshal & Manges
Howard Gold New York, NY	President and Chief Executive Officer, North Shore-LIJ Insurance Company Inc. Senior Vice President-Revenue and Business Development, North Shore Long Island Jewish Health System, Inc.
Richard Goldstein Muttontown, NY	Chairman and Chief Executive Officer, AEP Capital LLC
Saul Katz Glen Cove, NY	President and Chief Executive Officer, Sterling Equities, Inc.
Seth Lipsay Great Neck, NY	Executive Managing Director, New World Realty Advisors LLC
William Mack New York, NY	Chairman and Founder, Area Property Partners
Patrick McDermott Staten Island, NY	Partner, McDermott & Thomas Associates

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lewis Ranieri Merrick, NY	Chairman and Chief Executive Officer, Ranieri & Co. Inc.
Robert S. Shapiro Old Bethpage, NY	Treasurer, North Shore-LIJ Insurance Company Inc. Executive Vice President & Chief Financial Officer, North Shore Long Island Jewish Health System, Inc.
Mark Solazzo Bay Shore, NY	Executive Vice President and Chief Operating Officer, North Shore Long Island Jewish Health System, Inc.

The principal officers of North Shore included the following individuals as of the date of this examination:

<u>Name</u>	<u>Title</u>
Howard Gold	President and Chief Executive Officer
Robert S. Shapiro	Treasurer
Keith C. Thompson	Secretary
Laurence A. Kraemer	Assistant Secretary

## **2. SCOPE OF EXAMINATION**

The examination comprised a verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of assets and liabilities. The records examined included the Declaration of Intention and Charter, By-laws, Board of directors' meeting minutes, and Holding Company Organizational Chart. In addition, an affidavit, appended hereto, was obtained from two officers of the Company, indicating that the transactions noted in this report were bona fide.

### 3. CAPITALIZATION AND SUBSCRIPTION

The Company is a wholly-owned subsidiary of North Shore–LIJ Health Plans Holding Company, Inc. The Company issued to the parent company 100,000 shares of \$2 par value per share capital stock for a price of \$277.0818 per share, resulting in an aggregate purchase price totaling \$27,708,180. Of that amount \$243,680 was invested in a U.S. Treasury Note with The Northern Trust Company to establish a statutory investment account in the name of the Superintendent of Financial Services. The remaining amount of \$27,464,500 was deposited with the Bank of America.

### 4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of the date of this examination:

<u>Assets</u>	
Cash and cash equivalents	\$27,464,500
Bonds (U.S. Treasury Note)	<u>243,680</u>
Total assets	<u>\$27,708,180</u>
<u>Liabilities</u>	
	\$ <u>0</u>
<u>Capital and Surplus</u>	
Common capital stock	\$ 200,000
Gross paid in and contributed surplus	<u>27,508,180</u>
Total capital and surplus	<u>\$27,708,180</u>
Total liabilities, capital and surplus	<u>\$27,708,180</u>

## **5. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED**

The Company is authorized pursuant to its Charter to transact the kind of insurance as described in the following numbered paragraph of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
(3)(i)	Accident and health insurance

The Company's Charter indicates that the Corporation may also engage in any other kind or kinds of business to the extent necessary or incidental to the kind or kinds of business which it is or may hereafter be authorized to transact in the State of New York.

The Company's minimum financial requirements for the above mentioned line of business, as set forth in Sections 4204 and 4206 of the New York Insurance Law ("NYIL"), are as follows:

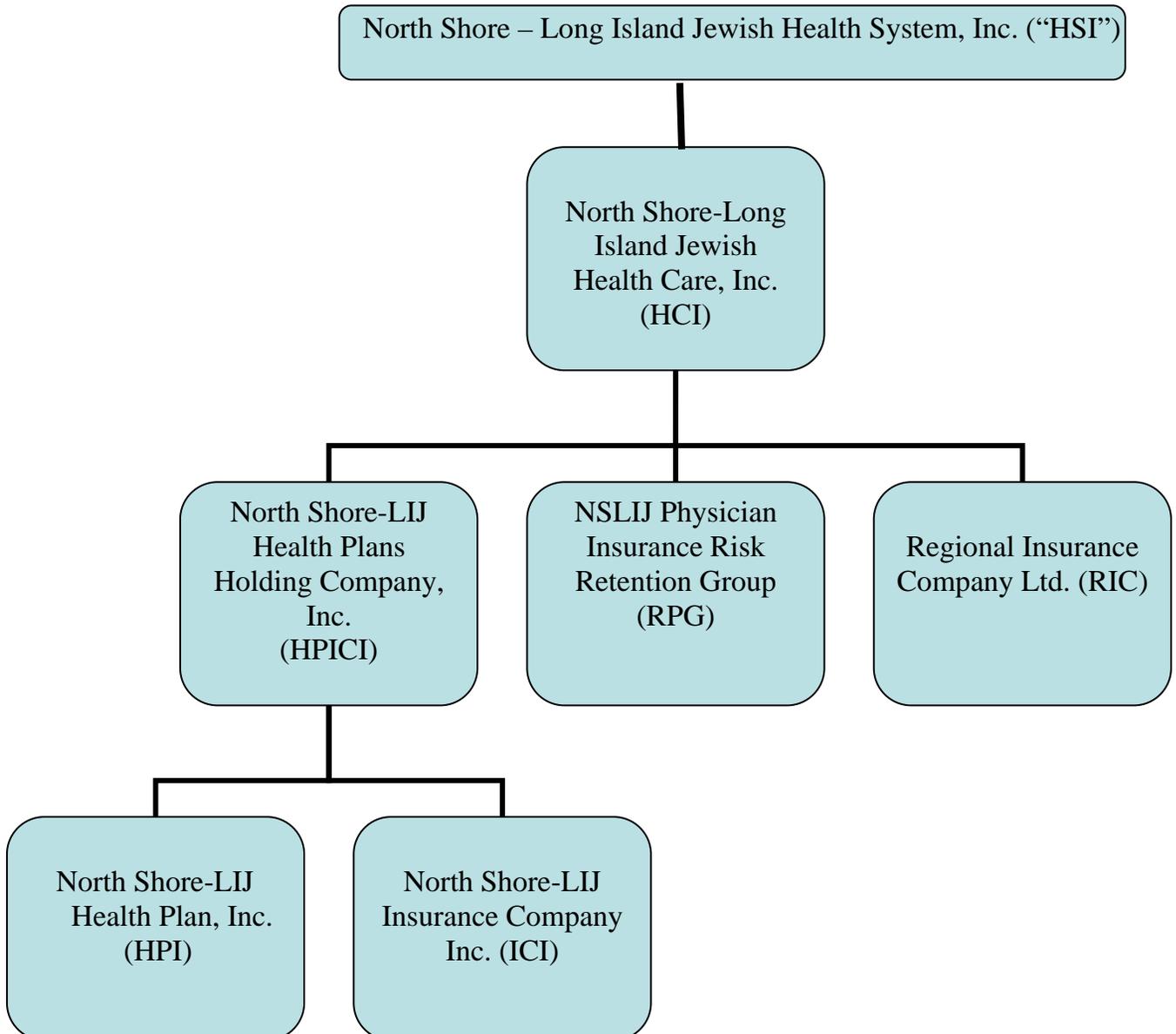
Initial surplus	\$300,000
Surplus to be maintained	\$200,000
Deposit	\$200,000
Capital	\$200,000
Minimum capital investments	\$200,000

In accordance with the provisions of Section 1314 of the New York Insurance Law, the Company, as of July 15, 2013, placed into a bank account at The Northern Trust Company, in the name of the Superintendent of Financial Services, qualifying U.S. Treasury Notes with a book value of \$243,680, in satisfaction of the \$200,000 deposit required pursuant to Section 4206 of the New York Insurance Law. In addition to the \$300,000 initial surplus required by Section 4204 of the

NYIL, an additional \$27,404,500 of capitalization is required based on the Company's submitted business plan and financial projections for a total capitalization requirement of \$27,704,500. As shown on the Balance Sheet above, the minimum capitalization requirement has been met.

## 6. HOLDING COMPANY SYSTEM

Below is a chart of the holding company system applicable to the Company and its related parties as of the exam date:



North Shore–Long Island Jewish Health System, Inc. (HSI). HSI (ultimate parent) acts as the sole corporate member or shareholder of various organizations, including holding companies, foundations, a research institute, core laboratory and hospice. HSI and its affiliates are being collectively referred to as North Shore–Long Island Jewish Health System (“Health System”).

North Shore-Long Island Jewish Health Care, Inc. (HCI). HCI acts as the sole corporate member of many of the hospitals and other providers in the Health System. Significantly, HCI is the unifying entity for an obligated group of ten hospitals for financing and borrowing purposes.

North Shore-LIJ Health Plans Holding Company, Inc. (HPICI). HPICI is the parent and the sole shareholder of North Shore-LIJ Insurance Company Inc.

North Shore-LIJ Physician Insurance Risk Retention Group (RPG). North Shore-LIJ Physicians Insurance Company Risk Retention Group provides individual physician practice insurance for employed and voluntary physicians (have admitting privileges at one or more of the Health System hospitals, but are not employed by the Health System).

Regional Insurance Company Ltd. (RIC). RIC is a captive insurance company that insures the Health System liability, as well as property and casualty risks.

North Shore-LIJ Health Plan, Inc. (HPI). North Shore-LIJ Health Plan, Inc. is a New York not-for-profit corporation, originally formed to hold the license of a managed long term care plan. The Health System will also use this entity to seek New York Public Health Law Article 44 Health Maintenance Organization licensure, to obtain approval for it to serve as a Capitated Financial Alignment Demonstration, and as a participant in Medicare Part C and/or Part D contracts, and to acquire a place in the Exchange as a QHP at a later date.

## **7. AGREEMENTS**

The Company has entered into the following agreements:

- I. Management Agreement with North Shore-LIJ Health Care, Inc.;
- II. Management Agreement with Population Health Management, LLC.;
- III. Administrative Service Agreement with HF Administrative Services, Inc.;
- IV. Prescription Benefit Services Agreement with CaremarkPCS Health, LLC.;
- V. IPA Health Care Service Agreement with HearUSA;
- VI. Dental Service Management Agreement with Healthplex Insurance Company; and
- VII. Vision Services Management Agreement with Davis Vision, Inc.

## **7. CONCLUSION**

The Company issued to HPICI 100,000 shares of \$2 par value per share capital stock for a price of \$277.0818 per share, resulting in an aggregate purchase price totaling \$27,708,180. Of that amount \$243,680 was invested in a U.S. Treasury Note with The Northern Trust Company to establish a statutory investment account in the name of the Superintendent of Financial Services. The remaining amount of \$27,464,500 was deposited with the Bank of America. The total capitalization as of the examination date was \$27,708,180.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

**ITEM**

**PAGE NO.**

A. Organization

It is recommended that the Company comply with the terms of its Charter and hold the Board of Directors' annual meeting on the first Thursday of the month of June.

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Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_

Edouard Medina  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_

Edouard Medina

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_ 2013

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

*Edouard Medina*

*as a proper person to examine the affairs of*

*North Shore - LIJ Insurance Company Inc.*

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

*Company*

*with such other information as he shall deem requisite.*

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

*this 2nd day of July, 2013*

*BENJAMIN M. LAWSKY  
Superintendent of Financial Services*

By:



*Lisette Johnson  
Bureau Chief  
Health Bureau*



STATE OF NEW YORK,            )  
  )  
COUNTY OF NASSAU            )     SS:

The undersigned, each an executive officer of North Shore-LIJ Insurance Company Inc. (the "Company") duly sworn, depose and say under oath that, on the date of July 16, 2013:

- (1) Each of the undersigned is an officer of the Company.
- (2) The Company's capital and surplus equals Twenty-Seven Million Seven Hundred Eight Thousand One Hundred Eighty Dollars (\$27,708,180), consisting of paid-in capital of Two Hundred Thousand Dollars (\$200,000) and contributed surplus of Twenty-Seven Million Five Hundred Eight Thousand One Hundred Eighty Dollars (\$27,508,180) (the "Capital and Surplus"). The funds supporting such Capital and Surplus are on deposit with The Northern Trust Company (\$243,680) and The Bank of America (\$27,464,500).
- (3) That no part of said paid-in capital and surplus has been withdrawn, pledged or in any way impaired, except as wanted for investment or otherwise legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity and in strict conformity with the statutes on such case made and provided.
- (4) That no part or portion thereof has been loaned or advanced to the Company by any person, partnership or corporation for the purpose of being used as such paid-in capital and surplus.
- (5) That according to the best of their respective knowledge, information and belief, there was no intention or design existing on the part of any person or persons whomsoever, to withdraw any part or portion of the said paid-in capital or surplus until the same was or is wanted for investment or to be legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity in strict conformity with the statutes in such case made and provided.
- (6) That there is no agreement or understanding, express or implied, made or existing between the Company or its officers, or any or either of them or any person or persons, to the effect of import that the money paid-in by the stockholder shall be loaned or returned to him or any person or persons for his or their use or accommodation or the hypothecation of stock of the Company as security therefor, or upon any other securities, terms and conditions whatsoever.
- (7) That neither the Company, nor any of its officers is in any way, manner or form, pledged or committed to make any investment loan or disposition of said paid-in capital and surplus or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.

Howard B. Gold 7/16/13  
Howard B. Gold Dated  
President and Chief Executive Officer

Keith C. Thompson 7/16/13  
Keith C. Thompson Dated  
Secretary

Subscribed and sworn to before me  
this 16~~th~~ day of July 2013

Nancy A. Romeo  
(Signature)

Notary Public Stamp

NANCY A ROMEO  
NOTARY PUBLIC-STATE OF NEW YORK  
No. 01RO6239072  
Qualified in Suffolk County  
My Commission Expires April 18, 2015