REPORT ON EXAMINATION

OF

UNITED HEALTHCARE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2008

DATE OF REPORT	**JUNE 29, 2010**
EXAMINERS	**DOUGLAS BARTLETT, CFE** **JEFFREY USHER**

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

June 29, 2010

Honorable James J. Wrynn
Superintendent of Insurance
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 30393, dated November 30, 2009, attached hereto, we have made an examination into the condition and affairs of United HealthCare Insurance Company of New York, an accident and health insurer licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2008, and submit the following report thereon.

The examination was conducted at the office of United HealthCare Insurance Company of New York located at 450 Columbus Boulevard, Hartford, CT.

Wherever the designations "UHIC NY" or the "Company" appear herein, without qualification, they should be understood to indicate United HealthCare Insurance Company of New York.

United HealthCare Insurance Company of New York is a wholly-owned subsidiary of UnitedHealthcare Insurance Company ("UHIC"), and its ultimate parent is UnitedHealth Group Incorporated.

Wherever the designation "UHG" appears herein, without qualification, it should be understood to indicate the operations of the UnitedHealth Group Incorporated holding company, the Company's ultimate parent.

A concurrent examination was made of UnitedHealthcare of New York, Inc., an affiliated health maintenance organization, licensed pursuant to the provisions of Article 44 of the New York Public Health Law. A separate report thereon has been submitted.

Wherever the designation "UHC NY" appears herein, without qualification, it should be understood to indicate UnitedHealthcare of New York, Inc.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Insurance Department.

1. SCOPE OF THE EXAMINATION

The Company was previously examined as of December 31, 2003. This examination of the Company was a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2009 Edition* (the "Handbook") and it covers the five-year period from January 1, 2004 through December 31, 2008. 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, 2008 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 Company's operations and utilizes that evaluation in formulating the nature and extent of the examination. The risk-focused examination approach was included in the Handbook for the first time in 2007; thus, this was the first such type of examination for the Company. The examiners planned and performed the examination to evaluate the Company's current financial condition, as well as identify prospective risks that may threaten the future solvency of UHIC NY.

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 Company's organization structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Company'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 Company was audited annually, for the years 2004 through 2008, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Company received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination. A review was also made of the ultimate parent company's Internal Audit function and Enterprise Risk Management program, as they relate to the Company.

The examiners reviewed the corrective actions taken by the Company 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 5 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 COMPANY

The Company is a domestic insurer licensed to write accident and health insurance, as defined in Paragraphs 3(i) and 3(ii) of Subsection (a) of Section 1113 of the New York Insurance Law. The Company was originally incorporated on February 8, 1995, as The MetraHealth Insurance Company of New York and commenced business on December 28, 1995. The Company is a wholly-owned subsidiary of United HealthCare Insurance Company (formerly known as The MetraHealth Insurance Company and Travelers Insurance Company of Illinois), a Connecticut stock corporation.

Effective July 17, 2007, the Department approved the statutory merger of Dental Insurance Company of America ("DICA") and UHIC NY. The merger was accounted for as a statutory merger in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 68 - Business Combinations and Goodwill.

The Company's administrative office is located at 2950 Expressway Drive South, Islandia, NY 11749.

A. Management and Controls

Pursuant to the Company's Charter and By-laws, management of the Company is to be vested in a Board of Directors ("BOD") consisting of not less than thirteen and not more than twenty Directors. The following individuals were members of the BOD of the Company as of December 31, 2008:

Name and Residence	Principal Business Affiliation
Jeffrey Donald Alter Belle Terre, New York	President and Chief Executive Officer, United HealthCare Insurance Company of New York
Craig Charles Anderson Wethersfield, CT	Senior Vice President - Finance, United HealthCare Insurance Company of New York
Patricia Anne Bowen West Hartford, CT	General Counsel and Secretary, United HealthCare Insurance Company of New York
Sanford Paul Cohen Levittown, NY	EVP and Chief Medical Officer, United HealthCare Insurance Company of New York
Robert Noel Dellacorte Shelton, CT	Vice President, United HealthCare Insurance Company of New York
Duane Ray Downey Avon, CT	Director, United HealthCare Insurance Company of New York Resigned October 2009
Karen LaFrence Erickson Plymouth, MN	Senior Vice President and Corporate Controller, UnitedHealth Group Incorporated
William John Golden Northport, NY	Senior Vice President, United HealthCare Insurance Company of New York
Jeffrey Wayne Kagan Farmingville, NY	Vice President, United HealthCare Insurance Company of New York
Thomas Joseph McGuire West Hartford, CT	Senior Deputy General Counsel, United HealthCare Insurance Company of New York
Michael Anthony Santoro Trumbull, CT	Vice President - Northeast Network Management, UnitedHealth Group Incorporated
Alan Jon Sorbo Southport, CT	President, UnitedHealthCare Insurance Company
Dewayne Edward Ullsperger Minnetonka, MN	Vice President and Actuary, UnitedHealth Group Incorporated

The BOD minutes and members' attendance were reviewed for the period under examination for UHIC NY.

The principal officers of the Company as of December 31, 2008 were as follows:

Name	**Title**
Jeffrey D. Alter	President and Chief Executive Officer
Robert W. Oberrender	Treasurer
Craig C. Anderson	Senior Vice President - Finance and Assistant Treasurer
Robert N. Dellacorte	Vice President - Finance and Assistant Treasurer
Patricia A. Bowen	General Counsel and Secretary
Sanford P. Cohen, MD	EVP and Chief Medical Officer
William J. Golden	Senior Vice President
Michael C. Matteo	Senior Vice President
Juanita B. Luis	Assistant Secretary
Jeffrey W. Kagan	Vice President

B. Corporate Governance

UHG is a publicly traded, diversified health company subject to the Sarbanes-Oxley Act of 2002. Enterprise Risk Management ("ERM") and Internal Audit are enterprise-wide functions, thus, unless otherwise noted, references to UHG are applicable to the Company.

UHG 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 Company'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. It was found that the Company's BOD and key executives encourage integrity and ethical behavior throughout the Company, and that senior management promotes a corporate culture that acknowledges, understands and maintains an effective control environment.

The Company's management has an adequate approach to identifying and mitigating risks across the organization, including prospective business risks. The Company deals proactively with its areas of risk, and its management is knowledgeable about mitigation strategies. Through risk discussions and other measures, the Company's management discusses significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. The Company's overall risk management process takes a proactive approach to identifying, tracking, and dealing with significant current and emerging risk factors.

UHG has an established Internal Audit Department ("IAD") function, which is independent of management, to serve the UHG Audit Committee of the BOD (the "Audit Committee" or "AC"), which is comprised entirely of external directors.

By 2008, approximately sixty-five percent (65%) of UHG's internal audit work was outsourced to, and therefore executed by, Ernst & Young ("E&Y"), a "Big Four" accounting firm. E&Y has experience consistent with industry norms, and all E&Y manager-level and above resources maintain applicable industry certifications. The IAD directs and supervises all internal audit work performed by E&Y. The IAD reviews and tests financial and operational controls and processes established by management to ensure compliance with laws, regulations and UHG policies. The scope of the IAD's program is coordinated with UHG's independent certified public accountants to ensure adequate coverage and maximum efficiency.

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

The examination noted the following reportable items related to Corporate Governance:

1. <u>Enterprise Risk Management Function</u>

As part of the examiners' assessment of the overall Corporate Governance environment, the Company's Enterprise Risk Management ("ERM") process was reviewed. The examiners noted certain ERM processes that could be enhanced. These are as follows:

- A formally documented ERM policies and/or procedure manuals, including documentation for both qualitative and quantitative risk aspects, do not exist within the Company.
- The inherent risk assessment is not documented in the "Risk Assessor" (a key report related to risk management efforts) as a stand-alone rating.
- The ERM framework does not address opportunities; rather, it only focuses on risk.

The Company has informed the Department that subsequent to the examination date, it implemented projects that address some of the above items. As part of the risk-focused surveillance approach, as described in the Handbook, the Department will follow up on key Company initiatives.

2. <u>General Auditor Compensation Approval</u>

Based on the Institute of Internal Auditors ("IIA") Standard 1110, at least once a year, the AC should review the performance of the Chief Audit Executive ("CAE") and approve this individual's annual compensation and salary adjustment. Although it was noted in the 2008 UHG AC minutes that, "The Committee reviewed the performance of the Internal Auditor during its executive session…", such minutes reviewed by the examiners did not explicitly document nor state the approval of the General Auditor's compensation. The documentation of conformity with a best practice should be to explicitly state the approval of the General Auditor compensation in the minutes.

It is recommended that the AC's review and approval of the General Auditor's compensation be explicitly stated in the minutes going forward.

3. Quality Assurance Review

Based on IIA Standard 1300, "the chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness." A Quality Assurance Review ("QAR") is a best practice and is a component used to determine the IAD's compliance with IIA Standards.

UHG has not had a QAR performed to date (a QAR includes a self-assessment first by the IAD, followed by an external review performed by a qualified third party).

Management has indicated tentative plans for a QAR during the 2010-2011 timeframe.

It is recommended that in accordance with IIA Standard 1300, UHG's IAD implement a QAR process, including a self-assessment by the IAD, followed by an external review performed by a qualified third party.

4. New York Legal Entities Audit Committee Self-Assessment

The American Institute of Certified Public Accountants ("AICPA") and the IIA recommend that an audit committee conduct a self-assessment and report the results to the BOD as a best practice. Currently, the Company's (legal entity's) Audit Committee does not require a periodic self-assessment.

It is recommended that the Company's (legal entity's) Audit Committee perform a periodic self-assessment, with results documented and communicated to the UHIC NY board.

5. Company Board of Directors Self-Assessment

Similar to the item above, it is a best practice to perform a periodic self-assessment of a company's board of directors. Currently, the Company's BOD does not require a periodic self-assessment.

It is recommended that the Company's BOD perform a periodic self-assessment and that the results of such self-assessment be documented.

6. Enhancements to Internal Audit Methodology Documentation

The examiners reviewed the IAD's written methodology/guidelines and noted that several items appeared to be in place in terms of process, but were not fully documented within the IAD's written methodology and guidelines, as provided. Documentation of these guidelines would provide for a consistent and proper application of standards that can be measured and audited.

It is recommended that the IAD consider modifying its written methodology/guidelines to more accurately reflect the comprehensive methodologies, processes and guidelines it has in place.

7. The Company's Compliance Testing

The Company is subject to the Department's Regulation 118 (11 NYCRR 89) – *Audited Financial Statements*, which is closely patterned upon the NAIC's Annual Financial Reporting Model Regulation, otherwise known as the Model Audit Rule ("MAR"). Regulation 118 (revision of existing Regulation 118), which applies certain requirements to the Department's regulated entities, was promulgated on an emergency basis in December 2009 and was effective beginning January 1, 2010.

During the examination, the examiners inquired of the Company about its plans to ensure that specific legal entities are scoped into testing on a regular basis. Based on discussions with the Company's General Auditor, it was understood that the IAD is in the process of refining its testing approaches related to UHIC NY, as part of its initiatives for compliance with Department Regulation 118.

It is recommended that the IAD continue to design and document its test plan to ensure that the Company is regularly scoped into its compliance testing, relative to the laws and regulations applicable to the Company. Consideration should be given to the (specific) frequency of such testing.

C. Territory and Plan of Operation

UHIC NY is licensed to sell accident and health insurance in the State of New York and primarily issues group accident and health insurance contracts to employers and associations. UHIC NY is licensed in New York under the provisions of Article 42 of the New York Insurance Law.

UHIC NY offers its "Evercare" long-term care product in the state of New York. Evercare, which is available to Medicaid and Medicare recipients, offers complete, individualized care planning and care benefits for aging, disabled, and chronically ill individuals. Evercare offers these long-term care services in nursing homes, community-based settings, and private homes.

UHIC NY serves as a plan sponsor, offering Medicare Advantage and Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare and Medicaid Services ("CMS"). Under the Medicare Part D program, there are six separate elements of payment received by UHIC NY during the plan year; these payment elements are CMS premium, member premium, low-income premium subsidy, catastrophic reinsurance subsidy, low-income member cost-sharing subsidy and CMS risk share.

On April 13, 2007, UHG entered into an agreement to extend and expand its relationship with the Association for the Advancement of Retired Persons ("AARP") through December 31, 2014. The agreement was expanded to give UHG the right to use the AARP brand on Medicare Advantage offerings and to extend UHG's arrangement to use the AARP brand on UHG Medicare Supplement products and services and Medicare Part D offerings.

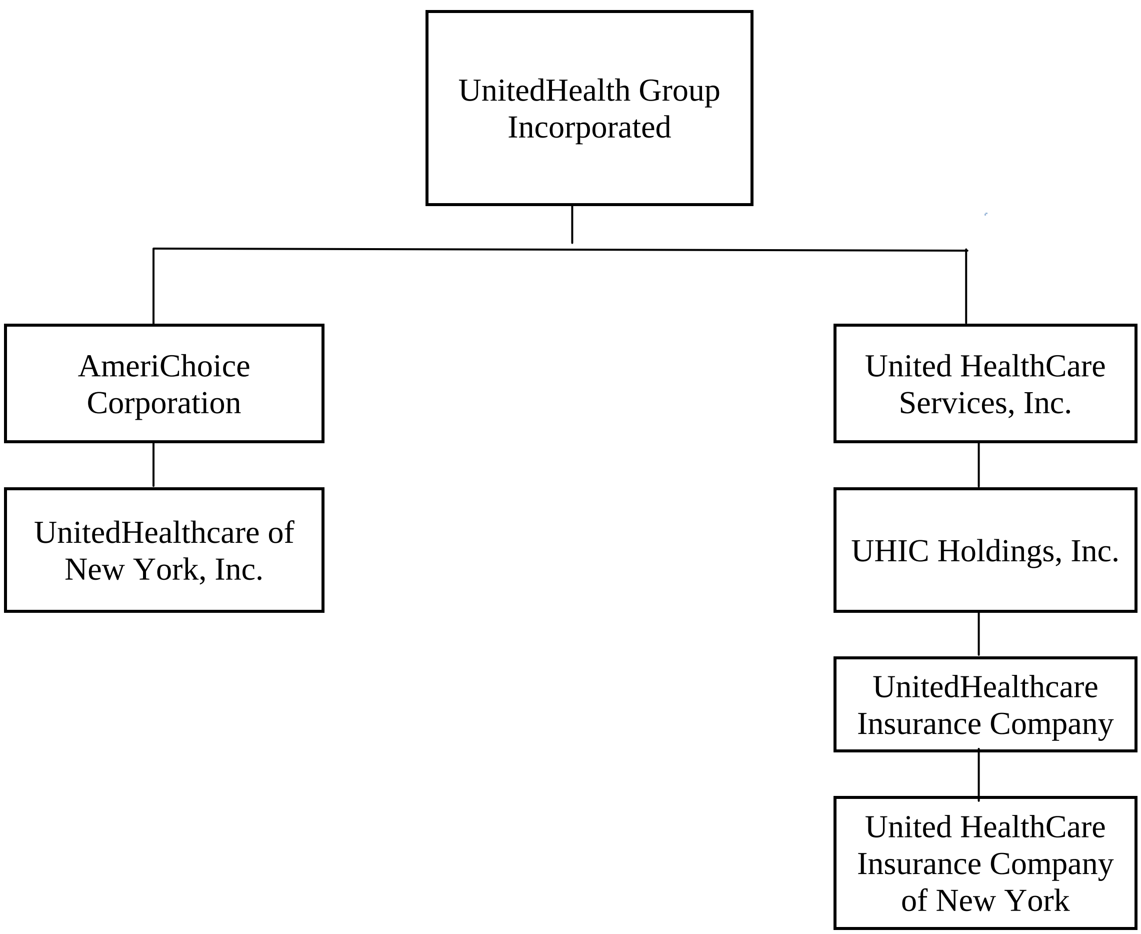
Effective January 1, 2008, UHIC NY was awarded a four-year contract by the New York State Department of Civil Service to administer medical and pharmacy benefits under the Empire Plan, the health plan for state employees and other participating public agencies in New York. The agreement represents coverage for more than one million members.

The following table displays UHIC NY'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
2008	$2,338,710,572	$422,507,105	$1,361,323,608	$64,468,329
2007	1,629,971,631	349,853,547	1,129,798,029	39,422,595
2006	1,402,991,043	299,203,032	1,006,996,183	41,604,812
2005	1,139,499,209	273,126,783	966,465,075	42,980,159
2004	1,017,950,742	225,359,298	897,395,691	34,068,844

D. Holding Company System

UHIC NY is a wholly-owned subsidiary of UnitedHealthcare Insurance Company, and its ultimate parent is UHG, a publically traded corporation domiciled in the State of Minnesota. The following chart depicts the Company’s holding company system as of December 31, 2008:



Inter-company Agreements

The Company is a party to numerous inter-company agreements, with its affiliates, which are subject to the Department's review and approval. These agreements involve activities such as administrative services, cash management, investment management, tax allocation, and reinsurance. The most significant of those agreements is the management agreement between United HealthCare Services, Inc. ("UHS") and the Company. UHS provides the following services to the Company: financial, management, accounting, underwriting, marketing, legal, medical provider, member services, medical management, agency development, employee management and benefit, information systems, and other general and administrative services.

UHS also provides claims services, including case management services and review of claim services to the Company, through Uniprise Inc., a UHG Company. The Company pays UHS a management fee equal to the actual costs of UHS for providing these services. If the actual cost is not determinable, there will be an allocation of actual costs to the Company on an equitable basis in conformity with the allocation of cost provisions of the contract.

E. Reinsurance

The Company participates in various reinsurance plans in order to limit losses, minimize exposure to large risks and to effect specific transfer of risk arrangements. The Company remains primarily liable as the direct insurer on most risks reinsured.

The Company entered into a quota share reinsurance agreement, effective January 1, 1998, whereby the Company cedes 50% of all group health insurance contracts to UHIC, the parent of the Company. Premiums of approximately $1.348 billion were ceded to UHIC by the Company for the year ended December 31, 2008.

Effective November 14, 2006, the Company entered into an assignment and assumption agreement with MEGA Life and Health Insurance Company ("MEGA") of Oklahoma, and Gerber Life Insurance Company ("Gerber") of White Plains, New York, whereby MEGA assigned, and the Company assumed, the Quota Share Reinsurance Agreement issued to Gerber by MEGA, dated January 1, 2001. Gerber shall cede, and the Company shall assume, 90% of the first $100,000 per accident or sickness of Gerber's liability for their student insurance business. Premiums of approximately $1 million were ceded to the Company by Gerber for the year ended December 31, 2008.

Effective January 1, 2007, the Company entered into an excess of loss reinsurance agreement with Capital District Physicians' Health Plan, Inc. ("CDPHP") of New York, whereby CDPHP ceded, and the Company assumed, the cost of the Mental Health and Substance Abuse ("MHSA") services under the benefit plans that, in aggregate, is in excess of the MHSA claims target. Premiums of approximately $10 million were ceded to the Company by CDPHP for the year ended December 31, 2008.

Effective January 1, 2007, the Company entered into a co-insurance reinsurance agreement with CDPHP Universal Benefits, Inc. ("CDPHP-UBI") of New York, whereby CDPHP-UBI ceded, and the Company assumed, the cost of the Mental Health and Chemical Dependency and Abuse ("MHCPA") services as outlined under the benefit plans. Premiums of approximately $4 million were ceded to the Company by CDPHP-UBI for the year ended December 31, 2008.

Effective January 1, 2008, the Company entered into a reinsurance agreement with Canada Life Assurance Company ("Canada Life") for 70% of premiums written for the State of New York Empire Plan for both Medical and Pharmacy coverage. The business from the existing July 1, 2002 contract with London Life Reinsurance Company ("London Re") was transferred to London Re's affiliated company, Canada Life. For the Medical agreement, premiums of approximately $1.389 billion were ceded by the Company to Canada Life/London Re for the year ended December 31, 2008. For the Pharmacy agreement, premiums of approximately $945 million were ceded by the Company to Canada Life for the year ended December 31, 2008.

Effective January 1, 2005, the Company entered into a quota share reinsurance agreement with Nationwide Life Insurance Company ("NLIC"), whereby the Company assumed, and NLIC ceded, 90% of NLIC's Group Accident (comprised of both Voluntary and Basic AD&D) business. There were no premiums assumed by the Company for the year ended December 31, 2008.

Effective April 1, 2006, the Company entered into a quota share reinsurance agreement with Underwriters at Lloyd's Individual Syndicates ("Lloyd's Syndicates"), whereby various Lloyd's Syndicates assumed, and the Company ceded, the cost of Group Personal Accident Policies, which included war risks. This agreement was renewed every year with updated shares for various Lloyd's syndicates. There were no premiums ceded by the Company for the year ended December 31, 2008.

Effective November 1, 2007, the Company and Unimerica Life Insurance Company of New York entered into a quota share reinsurance agreement with Meiji Yasuda Life Insurance Company ("Meiji"), whereby Meiji assumed, and the Company ceded, a Quota Share amount of any benefit costs, conversion charges, extra-contractual commitments, and other expenses as outlined under the benefit plans. There were no premiums ceded by the Company for the year ended December 31, 2008.

Effective January 1, 2008, the Company, along with UnitedHealthcare Insurance Company and Unimerica Life Insurance Company of New York, entered into a quota share reinsurance agreement with Korean Reinsurance Company ("KRC"), whereby KRC assumed, and the Company ceded, a Quota Share amount of any benefit costs, conversion charges, extra-contractual commitments, and other expenses as outlined under the benefit plans. There were no premiums ceded by the Company for the year ended December 31, 2008.

F. Accounts and Records

Evaluation of Controls in Information Systems

The Company's Information Systems ("IS") applies to UHG and all of its wholly-owned subsidiaries. The IS function is managed broadly and includes the operations of UHIC NY. UHG is responsible for maintaining the overall technology infrastructure utilized for data processing by the business units within the Company.

The IS portion of the examination was performed in accordance with the Handbook, utilizing the new Exhibit C (*Evaluation of Controls in Information Technology*) approach. The examiners' review of IS controls included: IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks; personal computers and; mainframe controls.

The examiners evaluated the IS internal control testing performed by UHG's Sarbanes-Oxley ("SOX") function, the IAD, and its independent auditors, D&T, and performed a review of end user computing and IS outsourcing controls. As a result of the procedures performed, the examination team obtained reasonable assurance that Information Technology ("IT") general controls and general application controls were functioning as management intended and that an effective system of internal controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company.

However, the examiners noted certain reportable items related to the review of IS controls. These are as follows:

1. <u>Improper Reliance on Service Auditor's Report</u>

UHG outsources elements of its technology operations to Trizetto, which in turn uses a subservice organization (QWEST) to provide data center services for UHG's FACETS environment. UHG relies on an annual Statement on Auditing Standards ("SAS") No. 70 *Audit Considerations Relating to an Entity Using a Service Organization* ("SAS 70") report from Trizetto to provide coverage for controls related to the FACETS hosting arrangement. Controls related to managing third party service providers and assessing their controls were determined to have a high inherent risk, and are key components of both the "Deliver and Support" and the "Monitor and Evaluate" domains of the risk-focused examination process.

UHG erroneously placed reliance on a SAS 70 report prepared by Trizetto. The SAS 70 report clearly indicated that the QWEST controls were not included in the scope of the SAS 70. Therefore, inadequate control coverage was provided for the data center's environmental and physical security controls related to the FACETS application hosting arrangement.

It is recommended that UHG modify its control design to include a thorough review and sign-off regarding any service auditor reports upon which it places reliance. While a tactical issue exists relative to whether QWEST provides adequate controls, the larger issue is the design of the control and the misplaced reliance on controls that were clearly scoped out of the SAS 70 report.

2. <u>Windows Server Password Controls</u>

A prior audit finding of an affiliate, related to weak password controls in UHG's Windows Active Directory ("WAD") environment is included herein due to the pervasive nature of WAD at UHG. This finding was formally reported to UHG in September 2009.

The stated recommendation of that audit was as follows:

> *"We recommend that the Company modify its baseline security standards to enforce strong passwords without exemption, based upon Microsoft's recommendations and other widely accepted best practices."*

UHG's response to the above recommendation was, "UnitedHealth Group agrees with the recommendation to modify baseline security standards to enforce strong passwords. The current UnitedHealth Group policy regarding complex password standards requires two of the following: Uppercase, Lowercase, Number, and Special Characters. UnitedHealth Group also realizes that industry standard calls for three. UnitedHealth Group will begin efforts to have the modified baseline security standards implemented in Active Directory and in the standards."

Although no changes had been made to the Active Directory baseline security standards related to this finding prior to the examiners' review, subsequent to completing the fieldwork, UHG informed the examiners that this issue will be remedied in the third quarter of 2010.

It is recommended that UHG modify its baseline security standards to enforce strong passwords without exemption, based upon Microsoft's recommendations and other widely accepted best practices.

3. Responses to Initial Information Gathering

The examiners made a considerable effort to employ a strategy that relied on prior audit work, including management testing, the IAD and external auditors, and submitted detailed information gathering questionnaires to UHIC NY prior to the commencement of fieldwork. The examiners identified that certain responses provided by the Company were incomplete and/or inaccurate in certain aspects. The incomplete pre-examination questionnaire responses from UHIC NY may have been due to the examiners' use of the updated NAIC Exhibit C, as this is the first time the Company had to complete the exhibit.

It is recommended that UHIC NY update its set of IT questionnaire responses. Such updating of responses may increase the efficiency of future examinations.

G. 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 UHIC NY, the mitigating controls are housed in "United Compliance", an internally developed system that, among other things, houses the documentation of the Sarbanes-Oxley control testing. These controls, related to UHG's SOX processes are tested and monitored by UHG.

Within UHG's SOX records, the internal controls applicable to UHIC NY were identified by its management.

The examiners only reviewed internal controls applicable to the Company. It was noted that during 2008, there were no specific regulations around SOX stipulated by the NAIC. A thorough review of these internal controls was an important component of the examination process. Although there were no identified material weaknesses, there were significant deficiencies identified by D&T, as well as some other internal control observations noted by the examiners during the review of the Company's internal controls that warrant attention. These are as follows:

D&T considered the following items to be a significant internal control deficiency:

- As of December 31, 2004, certain account reconciliations within Specialty Care Services - Dental Benefits Providers were not prepared and reviewed in a timely manner.

This issue was not identified in subsequent audits.

- As of December 31, 2007, internal controls over financial reporting were not operating effectively to detect:

  1. Financial statement errors related to the accounting for Medicare broker commission expense and liabilities;
  2. financial statement classification errors related to prescription drug event reserves and;
  3. financial statement errors related to the calculation of reinsurance recoverable with an affiliated reinsurer.

These issues were not identified in subsequent audits.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as determined by this examination with those reported by UHIC NY as of December 31, 2008. This statement is the same as the balance sheet filed by UHIC NY in its filed annual statement as of December 31, 2008:

	Examination	Company
Assets		
Bonds	$ 689,359,622	$ 689,359,622
Cash and cash equivalents	766,662,783	766,662,783
Short-term investments	34,619,576	34,619,576
Receivables for securities	448,300	448,300
Interest income due and accrued	7,601,368	7,601,368
Uncollected premiums and agents' balances in the course of collection	79,928,044	79,928,044
Accrued retrospective premiums	1,208,208	1,208,208
Amounts recoverable from reinsurers	634,197,681	634,197,681
Other amounts receivable under reinsurance contracts	74,808,845	74,808,845
Amounts recoverable relating to uninsured plans	657,602	657,602
Net deferred tax asset	5,609,674	5,609,674
Receivables from parent, subsidiaries and affiliates	18,988,936	18,988,936
Healthcare and other amounts receivable	24,619,933	24,619,933
Total assets	$ 2,338,710,572	$ 2,338,710,572

Liabilities	Examination	Company
Claims unpaid	$ 137,186,515	$ 137,186,515
Unpaid claims adjustment expenses	2,449,531	2,449,531
Aggregate health policy reserves	262,858,022	262,858,022
Aggregate health claim reserves	15,738,288	15,738,288
Premiums received in advance	10,486,282	10,486,282
General expenses due and accrued	29,648,960	29,648,960
Current federal and foreign income tax payable	4,244,273	4,244,273
Ceded reinsurance premiums payable	997,143,504	997,143,504
Remittances and items not allocated	4,049,910	4,049,910
Amounts due to parents, subsidiaries and affiliates	69,626,212	69,626,212
Payable for securities	69,998,688	69,998,688
Funds held under reinsurance treaties	309,059,159	309,059,159
Liability for amounts held under uninsured plans	16,443	16,443
Aggregate write-ins for other liabilities	3,697,680	3,697,680
Total liabilities	$ 1,916,203,467	$ 1,916,203,467

Capital and Surplus		
Common capital stock	$ 300,000	$ 300,000
Gross paid-in and contributed surplus	60,735,000	60,735,000
Surplus notes	12,300,000	12,300,000
Unassigned funds	349,172,105	349,172,105
Total capital and surplus	$ 422,507,105	$ 422,507,105
Total liabilities, capital and surplus	$ 2,338,710,572	$ 2,338,710,572

NOTE: The Internal Revenue Service ("IRS") has completed audits of UHG's consolidated Federal Income Tax returns for fiscal year 2007 and prior. UHG's 2008 Federal Income Tax return is under advance review by the IRS under its Compliance Assurance Program. The examiners are unaware of any potential exposure to the Company for any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue and Expenses

Capital and surplus increased $234,195,957 during the five-year examination period, January 1, 2004 through December 31, 2008, detailed as follows:

Revenue		
Premium income		$ 5,361,978,586
Change in unearned premium reserve		981,797
Total revenue		5,362,960,383
Hospital and medical expense		
Hospital/medical benefits	$ 12,905,336,551	
Prescription drugs	2,409,754,654	
Aggregate write-ins for other hospital and medical	89,965,513	
Net reinsurance recoveries	10,810,252,236	
Total hospital and medical expenses	$ 4,594,804,482	
Claims adjustment expenses	184,407,716	
General administrative expenses	451,619,189	
Increase in reserves for life and accident and health contracts	(4,578,000)	
Total underwriting expenses		5,226,253,387
Net underwriting gains (or losses)		$ 136,706,996
Net investment gains (or losses)		178,943,548
Aggregate write-ins for other income		(188,291)
Net income before federal and foreign income taxes		$ 315,462,253
Federal and foreign income taxes incurred		92,900,418
Net income		$ 222,561,835

C. Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination as of December 31, 2003			$ 188,311,147
Net income	$ 222,561,835		
Net change in unrealized capital gains (or losses)		$ 9,556	
Change in net deferred income tax	853,772		
Change in non-admitted assets		8,079,083	
Paid-in surplus	5,900,000		
Aggregate write-ins for gains (or losses) to surplus	12,484,697		
Increase in surplus due to restatement after merger	484,292		
Net change in capital and surplus			$ 234,195,957
Capital and surplus, per report on examination as of December 31, 2008			$ 422,507,105

4. CLAIMS UNPAID

The examination liability of $137,186,515 for the above captioned account is the same as the amount reported by the Company in its filed annual statement as of December 31, 2008. 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 Company's internal records and in its filed annual statements as verified by the examiners. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Company's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2008.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2003, contained the following ten (10) comments and recommendations pertaining to the financial portion of the examination (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
	Management	
1.	It is recommended that UHINY comply with its by-laws and hold Board of Directors meetings on at least a quarterly basis.	6
	The Company has complied with this recommendation.	
2.	It is recommended that UHINY establish procedures to ensure that unanimous written consent of all directors is received before adopting any written actions.	6
	The Company has complied with this recommendation.	
3.	It is also recommended that the aforementioned written actions be unanimously ratified by the current board of directors.	6
	The Company has complied with this recommendation.	
	Management Services Agreement	
4.	It is recommended that United HealthCare Service, LLC submit statements listing the services provided and the amount of estimated charges to the Company for such services in compliance with the requirements of its management agreement.	13
	The Company has complied with this recommendation.	

ITEM NO.		PAGE NO.
	Custodial Agreement	
5.	It is recommended that the Company amend its custodial agreement to include that the bank shall have in-force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank is to give the insurer 60 days written notice of any material change in the form or amount of such insurance for termination of this coverage. *The Company has complied with this recommendation.*	15
6.	It is recommended that the Company has written instructions hereunder shall be signed by any two of the insurer's authorized officers specified in a separate list for this purpose. This list will be furnished to the bank from time to time and signed by the treasurer or an assistant and certified under the corporate seal by the secretary or an assistant secretary. *The Company has complied with this recommendation.*	15
7.	It is recommended that the agreement should have a provision that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal control, pertaining to custodian record keeping, as issued by internal or independent auditors. *The Company has complied with this recommendation.*	15
	Accounts and Records	
8.	It is recommended that the Company make appropriate disclosures in its annual statement filings in accordance with paragraph 18 of SSAP No. 45. *The Company has complied with this recommendation.*	16
9.	It is recommended that the Company report its interest due and accrued on page 2 line 11 of its annual statement. *The Company has complied with this recommendation.*	16

ITEM NO.		PAGE NO.
10.	It is recommended that UHINY adjust its net investment income earned amounts on both its income statement and investment income exhibit, to reflect the accrued interest receivable amount. *The Company has complied with this recommendation.*	16

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	**Enterprise Risk Management Function**	
	The Company has informed the Department that subsequent to the examination date, it implemented projects that address some of the above items. As part of the risk-focused surveillance approach, as described in the Handbook, the Department will follow up on key Company initiatives.	9
B.	**General Auditor Compensation Approval**	
	It is recommended that the AC's review and approval of the General Auditor's compensation be explicitly stated in the minutes going forward.	10
C.	**Quality Assurance Review**	
	It is recommended that in accordance with IIA Standard 1300, UHG's IAD implement a QAR process, including a self-assessment by the IAD, followed by an external review performed by a qualified third party.	10
D.	**New York Legal Entities Audit Committee Self-Assessment**	
	It is recommended that the Company's (legal entity) Audit Committee perform a periodic self-assessment, with results documented and communicated to the UHIC NY board.	11
E.	**Company Board of Directors Self-Assessment**	
	It is recommended that the Company's BOD perform a periodic self-assessment and that the results of such self-assessment be documented.	11
F.	**Enhancements to Internal Audit Methodology Documentation**	
	It is recommended that the IAD consider modifying its written methodology/guidelines to more accurately reflect the comprehensive methodologies, processes and guidelines it has in place.	11

ITEM		**PAGE NO.**
G.	**The Company's Compliance Testing**	
	It is recommended that the IAD continue to design and document its test plan to ensure that the Company is regularly scoped into its compliance testing, relative to the laws and regulations applicable to the Company. Consideration should be given to the (specific) frequency of such testing.	12
H.	**Improper Reliance on Service Auditor's Report**	
	It is recommended that UHG modify its control design to include a thorough review and sign-off regarding any service auditor reports upon which it places reliance. While a tactical issue exists relative to whether QWEST provides adequate controls, the larger issue is the design of the control and the misplaced reliance on controls that were clearly scoped out of the SAS 70 report.	19
I.	**Windows Server Password Controls**	
	It is recommended that UHG modify its baseline security standards to enforce strong passwords without exemption, based upon Microsoft's recommendations and other widely accepted best practices.	20
J.	**Responses to Initial Information Gathering**	
	It is recommended that UHIC NY update its set of IT questionnaire responses. Such updating of responses may increase the efficiency of future examinations.	19

Appointment No. **30393**

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:

RSM McGladrey, Inc.

as a proper person to examine into the affairs of the

UnitedHealthcare Insurance Company of New York

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

Company

with such other information as it 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 30th day of November, 2009

James J. Wrynn
Superintendent of Insurance