

TAB 2

**New York
Liquidation Bureau**

Maria T. Vullo
Superintendent as Receiver

January 25, 2017

Sen. Kemp Hannon
Senate Health Committee Chair
The Capitol – Room 420
Albany, N.Y. 12247

Sen. James L. Seward
Senate Insurance Committee Chair
The Capitol – Room 430
Albany, N.Y. 12247

Dear Senators Hannon and Seward:

I write in my capacity as liquidator (“Liquidator”) of Health Republic Insurance of New York, Corp. (“Health Republic”) in response to your letter dated December 13, 2016, requesting information about the Health Republic liquidation.

As you know, the Supreme Court, New York County, placed Health Republic in liquidation and appointed me as Liquidator pursuant to an order entered May 11, 2016. My actions as Liquidator are governed by statutory obligations and reporting to the Court. My first priority as Liquidator has been to build a process for resolving policy-related claims in a fair and expeditious manner. In the first six months, my staff has obtained Court approval for Claims Adjudication Procedures, constructed a workflow for the lifecycle of a claim from submission through determination and appeal, directed an audit of Health Republic’s financial condition, and opened an investigation into potential affirmative claims, which is ongoing. In a recent conference, the Court approved the retention of a claims auditor and stated that it is pleased with the pace of the liquidation and that the liquidation process has been transparent.

The context of Health Republic’s organization and capitalization is important to evaluating the liquidation proceeding. As you know, the company was incorporated as a not-for-profit corporation and established as a Co-Op under the Affordable Care Act (“ACA”)’s Consumer Operated and Oriented Plan Program (“Co-Op Program”). The Co-Op Program was overseen by

the U.S. Department of Health and Human Services and its operating division, the Centers for Medicare & Medicaid Services (“CMS”), and required funding by the U.S. Congress. In addition to receiving federal start-up financing, Health Republic participated in three premium stabilization programs operated by the federal government known as the “3Rs” -- Risk Corridors, Risk Adjustment and Reinsurance. The 3Rs were designed to help Co-Ops maintain lower premiums by protecting against the inherent uncertainty of the new health insurance marketplace.

Health Republic began issuing individual and small group health policies to New Yorkers in 2014 and accrued receivables under the 3Rs. In December 2014, however, Congress passed a spending bill limiting CMS’s ability to fund Risk Corridors. As a result of Congress’s action, CMS sent Health Republic a series of notices terminating its financing arrangements under the Co-Op Program and reducing its expected statutory payments under Risk Corridors. On March 8, 2016, an “administrative hold” was placed on all future payables to Health Republic (and other Co-Ops across the country). In total, Congress’s actions resulted in over \$130 million in unpaid Risk Corridors obligations to Health Republic.

In the face of Health Republic’s difficulties, the Department of Financial Services worked collaboratively with the New York State Department of Health and others to protect Health Republic’s members and providers. Health Republic had approximately 206,000 members with medical visits generating over one million claims annually. Health Republic processed and paid submitted policy claims that were eligible for payment up to November 2015, and by the end of 2015, virtually all members had been transitioned to other plans.

As part of the liquidation proceeding, Health Republic has approximately 700,000 remaining policy-related claims that require resolution. To ensure that the claims are accurately and properly determined in a liquidation of this size and claim complexity, we have engaged a claims auditor to ensure that claims determinations are in compliance with plan designs, benefits, exclusions and eligibility requirements, and to remove potentially duplicative claims. As already noted, the Court approved the retention of the claims auditor at a recent conference, noting that the Liquidator’s usual course of business requires an independent review of the insurer’s prior claims determinations. In addition, the fee for this auditor is reduced from Health Republic’s prior claims administration expenses, and will reduce future claims-related objections and costs. We expect the audit to be substantially complete by May 2017, which will provide the basis for issuing claims determinations in the form of Explanations of Benefits/Allowances (“EOBs”) beginning in the second quarter of 2017, barring unforeseen events. My staff is currently preparing a process for the resolution of any disputed determinations or medical necessity issues, which will permit the appeals process to commence immediately upon the issuance of the EOBs, all in an effort to have a fair and efficient process for resolving claims.

From the start, I have been committed to a transparent process for Health Republic’s liquidation. Prior to liquidation, Health Republic had established a website and call center, and we have continued to receive thousands of inquiries concerning eligibility, benefits, timetables and

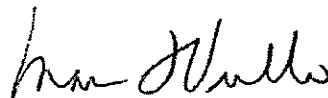
1095/1099 tax forms. Since I was appointed Liquidator, we have posted vendor agreements on Health Republic's website and provided a monthly tally of administrative expenses. We also have posted Health Republic's most recent unaudited balance sheet as of September 30, 2016; an audited balance sheet reflecting year-end balances for 2016 will be posted in the second quarter of 2017. From inception of this process to present, Health Republic has received approximately 25,000 calls and 49,000 website inquiries from the public. Of these collective 74,000 contacts, approximately 61,000 have required a follow-up review and/or response, a function that is now handled by my staff. In addition, a Claims Lookup feature has been set up to permit members and providers to confirm that their claims have been submitted in the liquidation proceeding.

You have asked about projected distributions to claimants given the amounts stated on Health Republic's financial statements. The financial statements reflect estimates at a given point in time and do not reflect the exact amount of assets or liabilities that will determine payments to creditors. As discussed above, the claims liabilities will be determined in connection with the claims audit and sent to claimants in the form of EOBs. Claimants will have the opportunity to appeal the EOBs under the Claims Adjudication Procedures. It is only at the end of this process that liabilities can be finally determined. The timing of distributions is also complicated by the fact that a large portion of Health Republic's recoveries and potential obligations are tied up in the Risk Corridors de-funding by Congress. In addition, we are continuing to investigate claims against third parties and will pursue potential assets for distribution to claimants if merited.

I am committed to a cost-effective and orderly liquidation of Health Republic. The first six to twelve months of a liquidation are generally the most intensive and much of the difficult work of setting up an administration process and determining claims necessarily is front-loaded. With respect to vendors, Health Republic, as an independent company prior to liquidation, had retained a third-party manager and a law firm to ensure an orderly transition during its financial difficulties. Maintaining those services during the early stages of the liquidation was prudent given the work they had already done. Following the transfer of claims data to the claims auditor this month, the third-party manager's services will be substantially completed and I have already limited the law firm's services to matters that will benefit from their familiarity with the facts and issues. A downward trend in expenses will be evident in coming months.

As noted above, processing the claims and protecting the interests of New York's members and claimants is my first priority as Liquidator of Health Republic. I look forward to your support and cooperation in the efficient completion of this estate.

Sincerely,



Maria T. Vullo
Superintendent of Financial Services
as Liquidator of Health Republic