

**ORGANIZATIONAL EXAMINATION  
OF**

**ELDER HEALTH INSURANCE COMPANY, INC.**

**AS OF**

**APRIL 19, 2006**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL REPORT ON EXAMINATION, made as of APRIL 19, 2006 of the

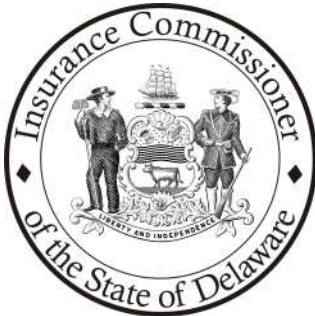
**ELDER HEALTH INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Annette Handy*

DATE: 20 JUNE 2006

*In witness Whereof,* I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 20TH DAY OF JUNE 2006.



*Matthew Denn*  
*Insurance Commissioner*

**REPORT ON ORGANIZATIONAL EXAMINATION**  
OF THE  
**ELDER HEALTH INSURANCE COMPANY**  
AS OF  
**APRIL 19, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 20TH day of JUNE, 2006.

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**SALUTATION**

April 26, 2006

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
Department of Insurance  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.011, dated April 4, 2006, an organizational examination has been conducted of the

**ELDER HEALTH INSURANCE COMPANY, INC.**

herinafter referred to as “the Company”, incorporated under the laws of the State of Delaware as a stock company with its statutory/main administrative office located at 3601 O’Donnell Street, Baltimore, Maryland 21224. The registered agent at the Company’s principal office is The Corporation Trust Company. The examination was conducted at the Company’s administrative office in Baltimore, Maryland.

The report of such examination is respectfully submitted herewith.

**SCOPE OF EXAMINATION**

This organizational examination is conducted in conjunction with the Company's application for a domestic Certificate of Authority in the State of Delaware. We have reviewed the Company's corporate records and financial data as of April 19, 2006.

**HISTORY**

The Company was incorporated on March 3, 2006, under the laws of the State of Delaware. The Company's Certificate of Incorporation authorizes the Company to issue up to one thousand shares of common capital stock with a par value of \$0.01 per share. On March 6, 2006, the Company issue 100 shares of common capital stock to Elder Health, Inc., the Company's parent. In addition, Elder Health contributed an additional \$7,500,764 of paid in contributed surplus and also unassigned surplus of \$7,050 was confirmed during the organizational examination.

**MANAGEMENT AND CONTROL**

The Company's by-laws state that the business and affairs of the Company shall be managed by or under the direction of the Board of Directors. The by-laws state "The number of directors constituting the whole board shall be such number as the board of directors may determine." "A meeting of stockholders shall be held in each year for the election of directors at such time and place as the Board of Directors shall determine." As of the date of this examination, the by-laws had not been adopted and the Board has not been formally elected. It is the intention of the Company to have 3 board members.

**It is recommended that the Company obtain a Unanimous Consent from the Stockholder of Record in order to ratify and adopt the by-laws of the Company and in order to properly elect the Board of Directors.**

**ELDER HEALTH INSURANCE COMPANY, INC.**

On April 24, 2006, the Company obtained a Unanimous Consent from the stockholder of record, Elder Health, Inc. The by-laws were adopted and the following individuals were elected to the Board of Directors:

Jeffrey M. Folick  
Frances A. Woodward  
Joseph F. Wagner

**Committees**

Pursuant to Section 3.10 of the by-laws, the Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Company. As of the date of this examination, the Company's Board of Directors has not designated any committees.

**Officers**

In accordance with Section 5.1 of the by-laws, the officers of the Company shall be chosen by the board of directors and shall be a president, a secretary, a treasurer and such other officers as the board determines is necessary. As of the date of this examination, the Company has not held any board meetings to elect its officers.

**It is recommended that the Company obtain a Unanimous Consent from the Board of Directors to elect officers for the Company and be in compliance with its by-laws.**

On April 24, 2006, the Company obtained a Unanimous Consent of the Board of Directors and the following individuals were elected as officers of the Company:

Jeffrey M. Folick	President
Frances A. Woodward	Secretary
Joseph F. Wagner	Treasurer

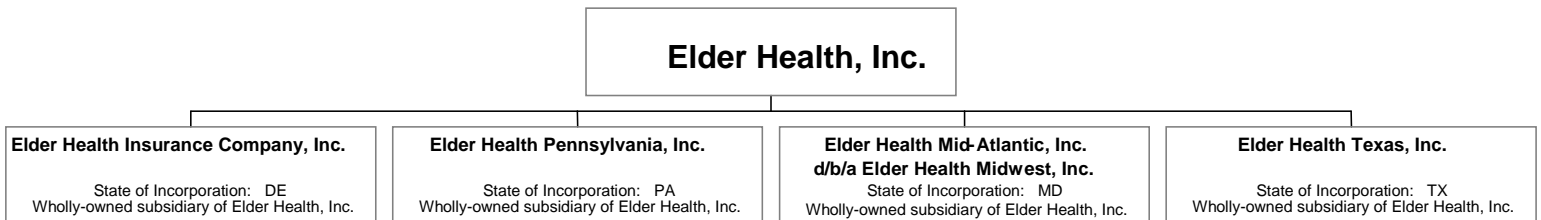
**ELDER HEALTH INSURANCE COMPANY, INC.**

The NAIC Biographical Affidavits of the officers and directors of the Company were reviewed during this examination.

**HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company System. A Holding Company Registration Statement was filed with the Delaware Insurance Department on March 3, 2006 and was reviewed without exception. The Company is a wholly owned subsidiary of Elder Health, Inc., a Delaware Corporation. Elder Health, Inc. was incorporated in the State of Delaware in June, 1995 to create health care delivery systems to manage health care for the nation’s growing at-risk elderly populations. Elder Health’s comprehensive delivery system through its various subsidiaries includes: primary care, coordination of inpatient care, social services and transportation services for health care services and adult day care. Over the years, Elder Health, Inc. has expanded into operating various Medicare plans in Maryland, Pennsylvania, the District of Columbia and Texas through the formation of HMO’s and other health plans.

The organizational chart below shows Elder Health, Inc. and its current subsidiaries as of the date of this examination:



**Elder Health, Inc.**

The Company has an administrative services agreement with its parent, Elder Health, Inc., dated March 6, 2006. The agreement states that Elder Health, Inc. is to



**ELDER HEALTH INSURANCE COMPANY, INC.**

provide the following services to the Company: Board of Directors Supervision, Corporate Management Support, Budget, Accounting and Finance, Data Collection and Reporting, Systems Maintenance and Support, Human Resources, Facility and Related Services and any other additional services that the two entities agree upon. In turn, the Company agrees to pay Elder Health, Inc. a monthly administrative fee in an amount that approximates the actual cost of these services to Elder Health, Inc. In addition to the monthly administrative fee, the Company agrees to reimburse Elder Health, Inc. for its development costs by making an additional monthly payment based on 2% of its Gross Revenues per month on an accrual basis until such time that Elder Health, Inc. has recovered its developmental costs in full. Developmental costs are defined as start up costs and expenses, direct and indirectly, associated with the formation of the Company.

The agreement is in effect for a one year period and is automatically renewed for successive one year periods thereafter unless 30 days prior written notice is given in advance by either party.

**Medco Health Solutions, Inc.**

Effective March 16, 2006, the Company contracted with Medco Health Solutions, Inc., (“Medco”), a non-affiliated, publicly traded entity, to provide some of the functions required to deliver the pharmacy services required under the Medicare Part D Prescription Drug Plan.

The Company will perform all financial, marketing, enrollment, eligibility and regulatory compliance functions related to the Part D program. Medco will furnish the prescription drug services, including formulary management, medication management therapy, drug utilization management, member intervention, pharmacy network

**ELDER HEALTH INSURANCE COMPANY, INC.**

contracting and management, customer service, claims processing functions, and fraud and abuse prevention. The Company will oversee and audit Medco's delegated functions.

**PLAN OF OPERATION**

The Company plans to offer a Medicare Advantage Part D standalone Prescription Drug Plan ("PDP") to Medicare beneficiaries residing in the States of California, New York, Florida, New Jersey, Ohio, Michigan, Pennsylvania and West Virginia effective January 1, 2007, pending submission of state license applications and receipt of a Federal waiver and contract from the Centers of Medicare and Medicaid Services ("CMS") to do so.

Services offered through this federally mandated standalone drug program include administration of prescription drugs through retail, mail-order, home infusion, long term care (institutional) and Indian Health Services, Indian Tribe and Tribal Organization, and Urban Indian Organization channels.

The staffing of the Company's Part D program will be comprised of personnel hired and trained by Elder Health, Inc. and staff provided contractually by Medco Health Solutions, Inc.

The Company does not plan to hire sales representatives to sell the PDP. The Company projects that a significant percentage of its enrollment will come through the Medicare auto enrollment process or CMS' online enrollment center. The Company will use some promotional materials to create a positive image of the PDP program. All promotional and advertising materials must be approved by CMS prior to distribution. There were no advertising materials furnished as of the date of this examination.

**CAPITAL AND SURPLUS REQUIREMENTS**

Section 511 (a) of the Delaware Insurance Code requires the following minimum capital and surplus amounts for a life and health insurance company:

Common Capital Stock	\$ 350,000
Free Surplus	<u>200,000</u>
Total Capital and Surplus	<u>\$550,000</u>

**FINANCIAL DATA**

The financial position of Elder Health Insurance Company, Inc. as of April 19, 2006, as determined by this examination was as follows:

**Assets**

Cash	\$7,207,025
Special Deposits - Delaware	<u>299,046</u>
Total Admitted Assets	<u>\$7,506,071</u>

**Liabilities**

Total Liabilities	\$0
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**Capital and Surplus**

Common Capital Stock	\$1
Gross Paid In and Contributed Surplus	7,500,764
Unassigned Funds (Surplus)	<u>5,306</u>
Total	<u>\$7,506,071</u>

**SUMMARY OF RECOMMENDATIONS**

1. It is recommended that the Company obtain a Unanimous Consent from the Stockholder of Record in order to ratify and adopt the by-laws of the Company and in order to properly elect the Board of Directors. (Management and Control, page 3). The Company complied with this recommendation subsequent to an on-site visit during the course of the examination.

**ELDER HEALTH INSURANCE COMPANY, INC.**

2. It is recommended that the Company obtain a Unanimous Consent from the Board of Directors to elect officers for the Company and be in compliance with its by-laws. (Management and Control, page 3).

**CONCLUSION**

Based on the organizational examination conducted as of April 19, 2006, the financial condition of Elder Health Insurance Company, Inc. was found to be as follows:

Assets	<u>\$7,506,071</u>
Liabilities	\$0
Common Capital Stock	\$1
Gross Paid In and Contributed Surplus	7,500,764
Unassigned Funds (Surplus)	<u>5,306</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$7,506,071</u>

Upon completion of the organizational examination and pending compliance with the aforementioned recommendations, the Company will have licensing requirements to become a licensed insurer in the State of Delaware. However, Section 511(a) of the Delaware Code requires the following minimum capital and surplus amounts:

Common Capital Stock	\$ 350,000
Free Surplus	<u>200,000</u>
Total Capital and Surplus	<u>\$550,000</u>

The examination was conducted by the undersigned.

Respectfully submitted,

*Nancy S. Thomas*

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Nancy S. Thomas, CFE, CIE, CPA  
Examiner-In-Charge  
Department of Insurance  
State of Delaware

**SUBSEQUENT EVENTS**

On April 24, 2006, Elder Health Insurance Company, Inc. obtained a Unanimous Consent from their sole stockholder and parent, Elder Health, Inc., ratified the Company's by-laws and formally elected its Board of Directors.

In addition, on April 24, 2006, the Company obtained a Unanimous Consent from its Board of Directors and elected officers for the current year.

The actions taken by Elder Health, Inc. and the Company's Board of Directors satisfy the previous recommendations noted in the Organizational Report on Examination.