

REPORT ON EXAMINATION

OF THE

ST. LAWRENCE-LEWIS COUNTIES SCHOOL DISTRICTS

EMPLOYEES MEDICAL PLAN

AS OF

DECEMBER 31, 2008

DATE OF REPORT

FEBRUARY 14, 2012

EXAMINER

TOMMY KONG

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

February 14, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30390, dated October, 26, 2009, attached hereto, I have made an examination of St. Lawrence-Lewis Counties School Districts Employees Medical Plan, a municipal cooperative health benefit plan licensed under the provisions of Article 47 of the New York Insurance Law, as of December 31, 2008, and respectfully submit the following report thereon.

The examination was conducted at the Plan's main administrative office located at 53 School Street, Richville, New York. This is the first examination of the Plan.

Wherever the term the "Plan" appears herein, without qualification, it should be understood to refer to St. Lawrence-Lewis Counties School Districts Employees Medical Plan.

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

It should be noted that the New York State Insurance Department merged with the New York State Banking Department on October 3, 2011 to become the New York State Department of Financial Services.

1. SCOPE OF THE EXAMINATION

The examination comprised a verification of assets and liabilities as of December 31, 2008, in accordance with Statutory Accounting Principles (SAP), as adopted by the Department, and a review of income and disbursements deemed necessary to accomplish such verification. The examination also utilized, to the extent considered appropriate, work performed by the Plan's independent certified public accountants. Transactions occurring subsequent to this examination were reviewed where deemed appropriate by the examiner.

A review was made to the following items as referred to in Article 47 of the New York Insurance Law:

- Plan Document
- Financial Statements
- Stop-Loss Contracts
- Service Provider Contracts

A review was also made of the following items:

- Claims Handling
- Explanation of Benefits

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

2. DESCRIPTION OF THE PLAN

The Plan was formed on July 1, 1978 by the participating school districts and the St. Lawrence-Lewis Counties Board of Cooperative Educational Services District (“BOCES”). The Plan’s objectives are to provide, develop and administer a program of health care benefits for its employees, retirees and their dependents. Each participating municipal corporation member pays to the Plan a monthly health insurance premium based upon a schedule of rates determined by the Plan’s actuary and approved by its board of governors.

The Plan, which is regulated by the Department pursuant to Article 47 of the New York Insurance Law, obtained a Certificate of Authority from the Superintendent of Insurance, effective October 6, 2009.

The Plan maintains its main administrative office at 53 School Street, Richville, New York. Currently, the Plan consists of eighteen (18) participating school districts and the St. Lawrence-Lewis Counties BOCES. The Plan’s participants and board of governors for these entities as of December 31, 2008, were as follows:

Participants

Brasher Falls Central School District
 Canton Central School District
 Clifton Fine Central School District
 Colton-Pierrepont Central School District

Board of Governors

Stephen Putman,
 Superintendent
 Julie Reinbeck,
 Business Manager
 Joseph Russo,
 School Board Member
 David White,
 Business Manager

ParticipantsBoard of Governors

Edwards Knox Central School District	Rodger Williams, Business Manager
Gouverneur Central School District	Connie Timmerman, Business Manager
Hammond Central School District	Douglas McQueer, Superintendent
Harrisville Central School District	Rolf Waters, Superintendent
Herman-Dekalb Central School District	Janet Boyd, Business Manager
Heuvelton Central School District	Carol LaSala, Business Manager
Lisbon Central School District	Wendy Mayer, Business Manager
Madrid-Waddington Central School District	Lynn Roy, Superintendent
Massena Central School District	Cynthia Yager, Business Manager
Morristown Central School District	Charles Alford, School Board Member
Norwood-Norfolk Central School District	Nicole Ashley, Business Manager
Odgenburg City School District	Joseph Lightfoot, School Board Member
Parishville-Hopkinton Central School District	Thomas Burns, Superintendent & Plan Chairman
Potsdam Central School District	Laura Hart, Business Manager
St. Lawrence-Lewis BOCES	James Chadwick, Director of Financial Affairs

The above school districts cover the geographic areas of St. Lawrence and Lewis counties of New York State. The Plan's enrollment of members as of December 31, 2008, was 5,123.

The Plan's officers and administrator as of December 31, 2008, were as follows:

<u>Name</u>	<u>Title</u>
Thomas Burns	Chairman & Attorney-in-Fact
Sue Collins	Secretary
Nancy Wright	Treasurer
Jayne Carbone	Plan Administrator

Jayne Carbone is the holder of the Plan's reports, records and statements, except for financial records. Nancy Wright is the holder of the Plan's financial records.

Advisors

Plan Consultant	Martin Cahill, CFO Locey & Cahill, LLC
Plan Attorney	Phillip Zachio, Esquire Bond, Schoeneck & King
Plan Accountant	Edward Mucenski, Pinto, Mucenski & Watson, P.C.

3. MUNICIPAL COOPERATION AGREEMENT

The Plan's Municipal Cooperation Agreement did not contain a provision that authorizes the governing board to establish a joint fund or funds to finance all of the Plan's expenditures, including claims, reserves, surplus, administration, stop-loss insurance and other expenses.

Section 4705(d)(4) of the New York Insurance Law states in part:

“The municipal cooperation agreement shall provide that the governing board:

(4) shall be authorized to establish a joint fund or funds to finance all plan expenditures, including claims, reserves, surplus, administration, stop-loss insurance and other expenses”

It is recommended that the Plan include a provision in its Municipal Cooperation Agreement that authorizes the governing board to establish a joint fund or funds to finance all of the Plan’s expenditures, including claims, reserves, surplus, administration, stop-loss insurance and other expenses, in accordance with Section 4705(d)(4) of the New York Insurance Law.

4. STOP-LOSS COVERAGE

The Plan maintains stop-loss coverage with Standard Security Life Insurance Company of New York, an authorized reinsurer.

Section 4707(a)(1) of the New York Insurance Law states in part:

“(a) The governing board of a municipal cooperative health benefit plan shall obtain and maintain on behalf of the plan a stop-loss insurance policy... providing:

(1) aggregate stop-loss coverage with an annual aggregate retention amount or attachment point not greater than one hundred twenty-five percent of the amount certified by a qualified actuary to represent the expected claims of the plan for the current fiscal year...”

At the examination date, the Plan's stop-loss contract contained an initial aggregate attachment point of \$81.1 million, and a minimum aggregate attachment point of \$77.1 million. Both attachment points exceed one hundred twenty-five percent (125%) of the approximate expected claims of \$58 million for fiscal year 2008-2009.

It is recommended that the Plan comply with the requirements of Section 4707(a)(1) of the New York Insurance Law by reducing the initial aggregate attachment point and the minimum aggregate attachment point of its stop-loss coverage to an amount not in excess of one hundred twenty-five percent of the amount of expected claims of the Plan for the current fiscal year, as certified by its qualified actuary.

5. ACCOUNTS AND RECORDS

As of December 31, 2008, the Plan maintained two asset management accounts, one with MBIA Asset Management, Armonk, New York and the other with M&T Investment Group, Buffalo, New York. Both accounts are maintained under the Plan's name and interest earned was accrued to the accounts.

6. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination of the Plan as of December 31, 2008. This is the same as the balance sheet filed by the Plan.

	<u>Examination</u>	<u>Plan</u>
<u>Assets</u>		
Cash and cash equivalents	\$27,206,778	\$27,206,778
Premiums receivable	107,393	107,393
Aggregate write-ins for current assets	<u>1,715,721</u>	<u>1,715,721</u>
Total current assets	\$27,029,892	\$27,029,892
<u>Other Assets</u>		
Aggregate write-ins for other assets	\$ 165,674	\$ 165,674
Total other assets	165,674	165,674
 Total Assets	 <u>\$27,195,566</u>	 <u>\$27,195,566</u>
<u>Liabilities</u>		
Claims payable reserve	\$ 9,964,735	\$ 9,964,735
Total liabilities	<u>\$ 9,964,735</u>	<u>\$ 9,964,735</u>
<u>Net Worth</u>		
Contingency reserve	\$ 2,912,491	\$ 2,912,491
Retained earnings	<u>14,318,340</u>	<u>14,318,340</u>
Total net worth	<u>\$17,230,831</u>	<u>\$17,230,831</u>
 Total liabilities and net worth	 <u>\$27,195,566</u>	 <u>\$27,195,566</u>

B. Statement of Revenue, Expenses and Change in Net Worth

Net worth increased \$15,523,720 during the examination period from July 1, 2005 through December 31, 2008, detailed as follows:

Revenue

Premium	\$173,786,205	
Net investment income	2,043,747	
Aggregate write-ins for other revenue	<u>4,195,869</u>	
Total revenue		\$180,025,821

Expenses

Claims	\$157,050,495	
General administrative expenses	3,654,713	
Aggregate write-ins for other expenses	4,109,901	
Reinsurance expenses net of recoveries	<u>754,146</u>	
Total expenses		\$ <u>165,569,255</u>
Net income		\$ <u>14,456,566</u>

Change in Net Worth

Net worth, per filed annual statement, as of June 30, 2005			\$ 1,707,111
	<u>Gains in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$14,456,566		
Change in contingency reserves	590,702		
Aggregate write-ins for change in other net worth	633,945		
Statutory adjustment as per examination	<u> </u>	\$157,493	
			\$ <u>15,523,720</u>
Net worth, per report on examination, as of December 31, 2008			\$ <u>17,230,831</u>

7. CLAIMS UNPAID

The examination liability of \$9,964,735 is the same as the amount reported by the Plan as of December 31, 2008.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and in its filed annual statements as verified during the examination.

It should be noted that the Plan was granted permission by the Department on June 29, 2005 to reduce the required minimum reserve amount per Section 4706(a)(1) of the New York Insurance Law from twenty-five percent to seventeen percent.

8. CLAIMS PROCEDURES

The Plan did not have formal procedures for handling claims for benefits in the event of the Plan's dissolution, as required by Section 4704(a)(8) of the New York Insurance Law.

Section 4704(a)(8) of the New York Insurance Law states in part:

“The superintendent shall issue a certificate of authority to a municipal cooperative health plan if all of the following conditions...have been met to the superintendent's satisfaction:

(8) the municipal cooperative health benefit plan has established a fair and equitable process for claims review... and procedures for handling claims for benefits in the event of plan dissolution, which are satisfactory to the superintendent;...”

It is recommended that the Plan comply with the requirements of Section 4704(a)(8) of the New York Insurance Law by establishing procedures in its Plan Document for handling claims for benefits in the event of the Plan's dissolution.

9. EXPLANATION OF BENEFITS FORMS

A review of the Plan's explanation of benefits forms (EOBs), which were issued to the Plan's insureds relative to paid and denied claims, were reviewed by the examiner. The review noted that the Plan issued EOBs, which were not in compliance with the requirements prescribed by Section 3234(b)(7) of the New York Insurance Law.

Section 3234(b)(7) of the New York Insurance Law states:

“(b) the explanation of benefits form must include at least the following:

(7) a telephone number or address where an insured or subscriber may obtain clarification of the explanation of benefits, as well as a description of the time limit, place and manner in which an appeal of a denial of benefits must be brought under the policy or certificate and a notification that failure to comply with such requirements may lead to forfeiture of a consumer's right to challenge a denial or rejection, even when a request for clarification has been made.”

It is recommended that the Plan include the required wording within its issued EOBs, pursuant to the requirements of Section 3234(b)(7) of the New York Insurance Law.

Further, Section 3234(b)(3) of the New York Insurance Law states in part:

“(b) the explanation of benefits form must include at least the following:

(3) an identification of the service for which the claim is made.”

The Plan failed to comply with the requirements of Section 3234(b)(3) of the New York Insurance Law, when it issued EOBs (for denied claims) that did not identify the type of service.

It is recommended that the Plan comply with the requirements of Section 3234(b)(3) of the New York Insurance Law, by amending its EOB forms to include clear identification of the service for which the claim was made.

10. SUBSEQUENT EVENTS

As of June 30, 2011, the Plan reported its net worth in the amount of \$8,993,269. Per review by the Department, such net worth should have been reported in the amount of \$6,475,776. Such change in reported net worth is primarily based on the Department's review of the Plan's unpaid claims reserve as of June 30, 2011. As a result of such review and a review of other balance sheet item, the Plan has been directed by the Department to amend its June 30, 2011 financial statement to reflect such net worth of \$6,475,776.

The Plan's net worth of \$6,475,776 as of June 30, 2011 represents an approximate 60% decrease from the net worth reported by the Plan as of June 30, 2008, the date of this examination.

During the July 1, 2008 to June 30, 2011 period, the Plan did not implement any premium rate increases essentially “spending down” its net worth to cover increased expenses, including claim expenses.

The following chart depicts the Plan’s reported total revenues and expenses, net income or loss and net worth at each fiscal year-end subsequent to the examination date of June 30, 2008:

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>
Revenue	\$56,234,960	\$ 54,745,786	\$ 54,118,835
Expenses	<u>55,254,578</u>	<u>58,005,328</u>	<u>59,744,353</u>
Net income/(loss)	<u>\$ 980,382</u>	<u>\$(3,259,542)</u>	<u>\$(5,625,518)</u>
Net worth	<u>\$17,318,940</u>	<u>\$14,003,132</u>	<u>\$ 6,475,776</u>

According to the Plan’s management, the Plan budgeted for a low net income for fiscal year 2008/2009 and for losses in fiscal years 2009/2010 and 2010/2011 due to a perceived excess net worth balance that the Plan had accumulated in previous years.

The Department is closely monitoring the Plan’s significant decrease in net worth.

In this regard, relative to fiscal year 2011/2012, the Plan has indicated that it has increased its overall premium rates by approximately 7%.

11. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Municipal Cooperation Agreement</u></p> <p>It is recommended that the Plan include a provision in its Municipal Cooperation Agreement that authorizes the governing board to establish a joint fund or funds to finance all of the Plan’s expenditures, including claims, reserves, surplus, administration, stop-loss insurance and other expenses, in accordance with Section 4705(d)(4) of the New York Insurance Law.</p>	<p>6</p>
<p>B. <u>Stop-Loss Coverage</u></p> <p>It is recommended that the Plan comply with the requirements of Section 4707(a)(1) of the New York Insurance Law by reducing the initial aggregate attachment point and the minimum aggregate attachment point of its stop-loss coverage to an amount not in excess of one hundred twenty-five percent of the amount of expected claims of the Plan for the current fiscal year, as certified by its qualified actuary.</p>	<p>7</p>
<p>C. <u>Claims Procedures</u></p> <p>It is recommended that the Plan comply with the requirements of Section 4704(a)(8) of the New York Insurance Law by establishing procedures in its Plan Document for handling claims for benefits in the event of the Plan’s dissolution.</p>	<p>11</p>
<p>D. <u>Explanation of Benefits Forms</u></p> <p>i. It is recommended that the Plan include the required wording within its issued EOBs, pursuant to the requirements of Section 3234(b)(7) of the New York Insurance Law.</p> <p>ii. It is recommended that the Plan comply with the requirements of Section 3234(b)(3) of the New York Insurance Law, by amending its EOB forms to include clear identification of the service for which the claim was made.</p>	<p>11</p> <p>12</p>

Appointment No. 30390

**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:

Tommy Kong

as a proper person to examine into the affairs of the

St. Lawrence-Lewis Counties School Districts Employees Medical Plan

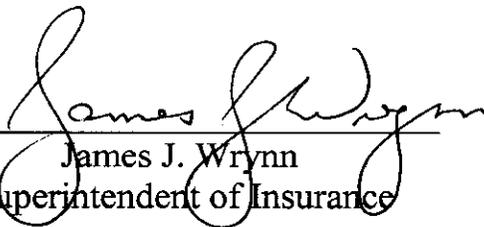
and to make a report to me in writing of the condition of the said

Municipal Cooperative Health Benefit Plan

with such other information as he 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 26th day of October, 2009


James J. Wrynn
Superintendent of Insurance

