



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SUFFOLK COUNTY POLICE BENEVOLENT ASSOCIATION
BENEFIT FUND

CONDITION:

DECEMBER 31, 2011

DATE OF REPORT:

APRIL 4, 2013

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

SHARON REYNOLDS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 13, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

Pursuant to instructions contained in Appointment No. 30820, dated October 16, 2012 and annexed hereto, an examination has been made of the condition and affairs of the Suffolk County Police Benevolent Association Benefit Fund hereinafter referred to as “the Fund,” at the principal office of the Fund, located at 868 Church Street, Bohemia, New York 11716.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition, as presented in its financial statements contained in the December 31, 2011 filed annual statement. (See item 4 of this report)

The Fund violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred. (See item 3 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2011. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2011 but prior to the date of this report (i.e., the completion date of the examination).

This examination comprised a verification of the Fund's assets and liabilities as of December 31, 2011 to determine whether the Fund's filed December 31, 2011 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification and utilized examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Fund history
- Management and control
- Fund records
- Member benefits and contributions
- Market conduct activities
- Growth of Fund
- Accounts and records
- Financial statements

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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

3. DESCRIPTION OF FUND

The Fund was established on January 1, 1972 pursuant to a collective bargaining agreement and a declaration of trust (“Trust Agreement”) between Suffolk County (“County”) and the Suffolk County Police Benevolent Association (“Association”). The Trust Agreement indicates that the purpose of the Fund is to provide insured and self-insured benefits that are permitted under the Federal Labor Management Relations Act, for employees, their families and dependents.

The December 31, 2011 annual statement indicated that there were 2,204 active and 3,577 retired participants.

A. Management

The Trust Agreement requires that the board of trustees shall be comprised of eight trustees, four appointed by the County and four appointed by the Association. The following is a list of the trustees as well as their principal business affiliation, as of December 31, 2011.

<u>Appointed by the County</u>		
<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Year First Appointed</u>
Frank Nardelli	County Executive Assistant	2007
Edwin Perez	Director of Community Affairs	2009
Jeff Tempara	Director of Labor Relations	2007

<u>Appointed by the Association</u>		
<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Year First Appointed</u>
Noel Digerolamo	Police Officer – Suffolk County	2007
J.E. Frayler	Police Officer – Suffolk County	1998
Louis Molinari	Police Officer – Suffolk County	2008
William Tricarico	Police Officer – Suffolk County	1999

Section 201.1 of Department Regulation No. 38 states, in part:

“The trustees of every employee welfare Fund shall give written notice to the Insurance Department of:

- (a) Any of the following changes, within 10 days after it shall have occurred . . .
- (4) Any change in the membership of the board of trustees . . .”

Subsequent to the examination date, in January 2012, Mr. Dennis Chen replaced Mr. Benjamin Zwirn and Mr. Paul Margiotta replaced Mr. Edwin Perez as trustees. Notification of the changes was sent to the Department in May 2012. In January, 2013, Mr. Joseph Link replaced Mr. Louis Molinari as trustee for the Association. Notification of the changes was not sent to the Department within 10 days after the changes had occurred.

The Fund failed to notify the Department, in writing, of the changes made to its board of trustees within 10 days after the changes had occurred.

The Fund violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred.

The examiner’s review of the minutes of the trustees’ meetings indicated that the majority of trustees attended the meetings regularly; however, Mr. Benjamin Zwirn attended only one meeting in 2008, one meeting in 2009 and did not attend any meetings in 2010 or 2011.

The examiner recommends that all of the Fund’s trustees attend a majority of the trustees’ meetings.

The Fund did not have, in accordance with the Trust Agreement, four trustees appointed by the County at December 31, 2011.

The examiner recommends that the Fund maintain the requisite number of trustees appointed by the County, as specified in the Trust Agreement.

B. Investment Powers of the Trustees

The Trust Agreement empowers the trustees to invest in any such investments that are legal for investments of trust funds under the laws of the State of New York.

As of December 31, 2011 the Fund’s assets were mainly comprised of investments in real estate trusts, 43%, and annuity contracts, 43%.

C. Member Benefits

The Fund provides active members, eligible dependents and retirees with the following self-insured benefits:

- Dental
- Pediatric dental
- Optical
- Prescription drug
- Medical co-payment
- Psychological service
- Hearing
- Electronic Beam Tomography
- Cardiac scan
- Lamaze
- Smoking cessation program
- Financial planning

D. Contributions

The collective bargaining agreements for the period under review called for the following annual contribution per year:

<u>Year</u>	<u>Contribution</u>
2007	\$4,470,656
2008	\$4,375,890
2009	\$4,233,744
2010	\$4,135,787
2011	\$4,236,900

E. Information to Members

The Fund's records indicate that annual reports are distributed to all members through an internet website. The website, www.suffolkpba.org, is accessible to all members and describes the Fund's benefits and procedures.

4. FINANCIAL STATEMENTS

The following statements indicate the changes in assets, liabilities and reserve fund balance between the years ended January 1, 2007 and December 31, 2011, changes in the reserve fund balance for the period under examination, and a reconciliation of the reserve fund balance for each of the years under examination as extracted from the Fund's filed annual statements. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2011 filed annual statement.

A. STATEMENT OF ASSETS, LIABILITIES AND RESERVE FUND BALANCE

The following table indicates the Fund's financial growth (decline) during the period under review:

	December 31, <u>2006</u>	December 31, <u>2011</u>	Increase <u>(Decrease)</u>
<u>Assets</u>			
Cash	\$ 46,082	\$ 136,369	\$ 90,287
Due from Suffolk County PBA Legal Service Fund	9,511	7,682	(1,829)
Bank deposits at interest	2,966,084	691,354	(2,274,730)
Stocks	180,474	626,825	446,351
Bonds: Government	484,178	0	(484,178)
Non-Government	551,180	230,152	(321,028)
Mutual funds	7,234,102	4,924,335	(2,309,767)
Annuity Contracts	0	4,694,858	4,694,858
Prepaid expenses	14,555	15,386	831
Furniture and equipment	<u>11,087</u>	<u>4,463</u>	<u>(6,624)</u>
Total assets	<u>\$11,497,253</u>	<u>\$11,331,424</u>	<u>\$ (165,829)</u>
<u>Liabilities and reserve fund balance</u>			
Unpaid Claims	\$ 0	\$ 71,197	\$ 71,197
Accounts payable	74,226	25,111	(49,115)
Claims incurred but not reported	529,076	628,156	99,080
Post-retirement benefit obligations	<u>2,212,263</u>	<u>6,224,029</u>	<u>4,011,766</u>
Total liabilities	<u>\$ 2,815,565</u>	<u>\$ 6,948,493</u>	<u>\$ 4,132,928</u>
Reserve fund balance	<u>\$ 8,681,688</u>	<u>\$ 4,382,931</u>	<u>\$(4,298,757)</u>
Total liabilities and reserve fund balance	<u>\$11,497,253</u>	<u>\$11,331,424</u>	<u>\$ (165,829)</u>

B. STATEMENT OF CHANGES IN RESERVE FUND BALANCE

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Additions to fund balance:</u>					
Employer contributions	\$4,468,828	\$4,374,151	\$4,230,955	\$4,131,517	\$4,233,396
COBRA participants	1,828	1,739	2,789	4,270	3,504
Investment income	181,909	155,752	76,943	61,283	52,441
Dividend income	228,063	260,770	178,657	235,706	357,082
Profit on disposal from investments	211,978	246,601	119,531	116,882	7,769
Increase by adjustment in asset values of investments	0	0	1,557,213	653,091	0
Claims incurred but not reported	79,044	0	0	0	53,867
Decrease during the year attributable to benefit earned and other changes	_____	_____	_____	_____	<u>109,171</u>
Total additions	<u>\$5,171,650</u>	<u>\$5,039,013</u>	<u>\$6,166,088</u>	<u>\$5,202,749</u>	<u>\$4,817,230</u>
	0	0	0	0	
<u>Deductions from fund balance:</u>					
Premiums to insurance carriers	\$ 661,388	\$ 675,388	\$ 781,804	\$ 729,472	\$ 738,474
Benefits paid directly by the Fund	2,473,141	2,501,575	3,112,279	3,285,434	3,159,870
Administrative expenses	483,893	544,061	577,025	612,491	646,787
Loss on disposal of investments	122,228	431,305	314,434	20,706	131,735
Decrease by adjustments in asset values on investments	172,430	2,017,117	0	0	635,393
Allocation to Suffolk County PBA					
Legal Services Fund	302,207	301,047	309,441	313,545	287,889
Post-retirement benefits	529,533	0	0	0	0
Claims incurred but not reported	0	76,050	122,152	33,789	0
Increase during the year attributable to benefit earned and other changes	_____	_____	<u>3,388,184</u>	_____	_____
		<u>189,580</u>		<u>13,640</u>	
Total deductions	<u>\$4,744,820</u>	<u>\$ 6,736,123</u>	<u>\$ 8,605,319</u>	<u>\$5,009,077</u>	<u>\$5,600,148</u>
	0				0
Net increase (decrease) in fund balance	<u>\$ 426,830</u>	<u>\$(1,697,110)</u>	<u>\$(2,439,231)</u>	<u>\$ 193,672</u>	<u>\$(782,918)</u>

C. RECONCILIATION OF RESERVE FUND BALANCE

	<u> </u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Reserve fund balance, December 31, previous year	\$ <u>8,681,688</u>	\$ <u>9,108,518</u>	\$ <u>7,411,408</u>	\$ <u>4,972,177</u>	\$ <u>5,165,849</u>
Total additions during year	\$5,171,650	\$ 5,039,013	\$ 6,166,088	\$5,202,749	\$4,817,230
Total deductions during year	<u>4,744,820</u>	<u>6,736,123</u>	<u>(8,605,319)</u>	<u>5,009,077</u>	<u>5,600,148</u>
Change in fund balance	\$ <u>426,830</u>	\$ <u>(1,697,110)</u>	\$ <u>(2,439,231)</u>	\$ <u>193,672</u>	\$ <u>(782,918)</u>
Reserve fund balance, December 31, current year	\$ <u>9,108,518</u>	\$ <u>7,411,408</u>	\$ <u>4,972,177</u>	\$ <u>5,165,849</u>	\$ <u>4,382,931</u>

2007

5. ADMINISTRATIVE EXPENSES

The following table shows a breakdown of the administrative expenses for the fiscal year ending December 31, 2011:

Administrative Expenses

Salaries	\$238,922
Fund administrator	4,793
Trustee	150
Taxes	19,976
Fees and commissions	190,165
Rent	51,550
Insurance premiums	10,724
Fidelity bond premium	488
Dues and subscriptions	2,244
Meetings	2,231
Communications to participants	11,653
Depreciation and amortization	2,568
Equipment rental	5,555
Stationery, printing and office supplies	22,597
Hospitalization	31,896
Pension plan contributions	45,987
Computer expense	<u>5,288</u>
 Total administrative expenses	 <u>\$646,787</u>

The following schedule shows the number of members, contributions, administrative expenses, the ratio of administrative expenses to contributions, and the administrative cost per member for the period under review:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Number of members	2,299	2,272	2,204	5,958	5,781
Contributions	\$4,470,656	\$4,375,890	\$4,233,744	\$4,135,787	\$4,236,900
Administrative expenses	\$483,893	\$544,061	\$577,025	\$612,491	\$646,787
Ratio of administrative expenses to contributions	10.82%	12.43%	13.63%	14.81%	15.27%
Administrative cost per member	\$210.48	\$239.46	\$261.81	\$102.80	\$111.88

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Fund's market conduct activities affecting claimants to determine compliance with applicable statutes and regulations and the operating rules of the Fund.

The examiner reviewed a sample of self-insured dental, vision, and prescription drug claims to determine whether the members were treated fairly and in accordance with plan benefits.

The Fund failed to verify the cost Davis Vision charged the Fund to the Davis Vision contract agreement. The Fund over paid dispensing and exam fees during the entire exam period.

The Fund reviewed the payments made and recouped the over payment.

7. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred.	5
B	The examiner recommends that all of the Fund's trustees attend a majority of the trustees' meetings.	5
C	The examiner recommends that the Fund maintain the requisite number of trustees appointed by the County, as specified in the Trust Agreement.	5
D	The Fund failed to verify the cost Davis Vision charged the Fund to the Davis Vision contract agreement. The Fund over paid dispensing and exam fees during the entire exam period.	12

Respectfully submitted,

/s/
Sharon Reynolds
Senior Examiner

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

Sharon Reynolds, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Sharon Reynolds

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 30820

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:

SHARON REYNOLDS

as a proper person to examine the affairs of the

SUFFOLK COUNTY POLICE BENEVOLENT ASSOCIATION BENEFIT FUND

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

WELFARE FUND

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 16th day of October, 2012

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



***MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU***

