

REPORT ON ORGANIZATION

OF

FREELANCERS HEALTH SERVICE CORPORATION

AS OF

JULY 9, 2013

DATE OF REPORT

JULY 17, 2013

EXAMINER

EDOUARD MEDINA

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 17, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 31014, dated July 2, 2013, and attached hereto, I have made an examination “on organization” of Freelancers Health Service Corporation and the following report thereon is respectfully submitted.

The examination was conducted at the office of Freelancers Health Service Corporation located at 112 West 34th Street, New York, NY 10120.

Wherever the designations the “Company” or “Freelancers” appear herein, without qualification, they should be understood to indicate Freelancers Health Service Corporation.

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

1. ORGANIZATION

Freelancers Health Service Corporation, a New York insurance corporation, was incorporated on October 13, 2011 as a corporation, as such term is defined in subparagraph (a)(5) of Section 102 of the Not-for-Profit Corporation law, for the purposes of furnishing health service indemnity coverage to persons who become covered under contracts with the Company pursuant to Article 43 of the New York Insurance Law. The Company applied for funding as a Consumer Operated and Oriented Plan (CO-OP) under Section 1322 of the Patient Protection and Affordable Care Act (PPACA) and was awarded a contract from the Centers for Medicare and Medicaid Services (CMS) for funding as a CO-OP on February 17, 2012. Once licensed and deemed a “Qualified Health Plan,” the Company will offer health insurance coverage to eligible New York State residents through, as well as outside of, the New York Health Benefit Exchange. The Company will market itself as Freelancers Health Service Corporation d/b/a Health Republic Insurance of New York.

Once fully operational, the Company will be governed by an operational Board of Directors. Pursuant to the Federal CO-OP Rules, the majority of the voting directors on the operational board must be members of the Company. The Company is a federally tax-exempt organization pursuant to Internal Revenue Code Section 501(c)(29).

The Company’s by-laws, adopted as of March 6, 2013, stipulate that the initial board of directors shall be called the Formation Board. The Formation Board will oversee the initial operations of the Company. Per the Company’s by-laws, the Formation Board shall have at least thirteen (13) and no more than fifteen (15) members and shall meet no less than four times a year. A

review of the minutes of the board of directors' meetings revealed that the board only met three times during 2012 and only once thus far in 2013.

It is recommended that the Company's board of directors meet no less than four times a year, in accordance with its by-laws.

The by-laws specify further that no later than the first anniversary of the date that the Company provides health insurance coverage to its first enrollee, or on such earlier date that the Formation Board designates by resolution, the Formation Board will be replaced by the Operational Board of Directors. The Operational Board shall have at least thirteen (13) and no more than fifteen (15) members and shall meet at least four times a year. As of the date of this examination, the thirteen (13) members of the board of directors were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ilise Benum Hoboken, NJ	Independent consultant
Bernard Bettencourt New York, NY	Assistant Clinical Professor, Tufts University School of Medicine
Sharon Colucci New York, NY	Masters in Global Affairs, Freelance
Barbara Davis New York, NY	Chief Operating Officer, The Actors Fund of America
Abbe Eckstein New York, NY	Senior Design Manager, Scholastic Education Group
Debra-Ellen Glickstein Long Island City, NY	Vice President, New York City Housing Authority
Debra Guss Brooklyn, NY	Adult Nurse Practitioner, Staten Island physician practice

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Rebecca Kramnick New York, NY	Vice President, Women's Housing and Economic Development Corporation
Dr. Elizabeth Mayer New York, NY	Assistant Professor of Clinical Medicine, Columbia University Department of Medicine
Joseph Mouallem New York, NY	Student, SUNY Downstate College of Medicine,
Margaret Rimsky New York, NY	Worldwide Group Planning Director, Ogilvy & Mather
Dr. John Ruge Queensbury, NY	Founder/Chief Executive Officer, Hudson Headwaters Health Network
Hildy Simmons New York, NY	Vice Chairman, Brooklyn Community Foundation

The principal officers of Freelancers included the following individuals as of the date of this examination:

<u>Name</u>	<u>Title</u>
Daniel T. McGowan	Interim Chief Executive Officer
Michael P. Paduano	Director of Finance Officer and Chief Financial Officer
Allison Silvers	Director of Operations Officer and Chief Operating Officer
Debra-Ellen Glickstein	Secretary

2. SCOPE OF EXAMINATION

The examination was comprised of a verification of the receipt of capital and surplus funds, and the determination of assets, liabilities, and expenses. The records examined included the Certificate of Incorporation, By-laws, and Board of Directors' minutes.

3. CAPITALIZATION AND SUBSCRIPTION

The Company's capital and surplus is thirty-seven million, nine hundred eighty-seven thousand, two hundred seventy-three dollars (\$37,987,273), including a surplus note in the amount of forty-eight million, four hundred and one thousand, nine hundred thirty-four dollars (\$48,401,934). The funds supporting capital and surplus are on deposit with Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. An affidavit, appended hereto, was obtained from two officers of the Company, indicating that the transactions noted in this report were bona fide.

4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of the date of this examination:

Assets

Cash and invested assets	\$11,326,863
Bonds (U.S. Treasury Bills)	<u>48,376,542</u>
Total assets	<u>\$59,703,405</u>

Liabilities

Accounts payable	\$ 1,122
Accrued general expenses	266,041
Advance premium	2,200
Payroll taxes	16,369
Program related investment loan	<u>21,430,400</u>
Total liabilities	<u>\$21,716,132</u>

Capital and Surplus

Surplus notes	\$48,401,934
Unassigned surplus	<u>(10,414,661)</u>
Total capital and surplus	<u>\$37,987,273</u>
Total liabilities, capital and surplus	<u>\$59,703,405</u>

5. AUTHORIZED POWERS

The Company is authorized, pursuant to its certification of incorporation, which was approved by the Department on October 7, 2011, to obtain a license to offer health service indemnity insurance pursuant to Section 4301 of the New York Insurance Law.

The Company is a Corporation, as such term is defined in subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation law.

The Company shall have all legal powers necessary or convenient to engage in activities to the extent the same may be engaged in by an entity exempt from federal income tax under Internal Revenue Code Section 501(c)(29). The Company shall be a type D corporation pursuant to Section 201 of the Not-For Profit Corporation Law.

6. COMMITMENT

The Company is not a “controlled insurer,” as such term is defined in Section 1501(a)(4) of the New York Insurance Law. Pursuant to a “Commitment Concerning Related Party Transactions,” executed on July 2, 2013, as a condition of being licensed as a New York Insurance Law Article 43 health service corporation, Freelancers agrees that any direct or indirect transaction involving the Company on the one hand, and Freelancers Union, Inc. (“Freelancers Union”) or any members(s) of Freelancers Union’s holding company system on the other, shall be governed by the provisions of Sections 1505, 1507, and 1510 of the New York Insurance Law. Further, the Company agrees that it will not enter into any transaction(s) with any member(s) of the Freelancers Union holding company system, unless thirty days prior to entering into any such transaction: (i) Freelancers notifies the Superintendent in writing of its intent to enter into such transaction; (ii) Freelancers submits to the Superintendent copies of all proposed agreements relating to such transaction, three additional bids relating to such transaction, and any other documentation requested by the Superintendent in connection therewith; and (iii) the Superintendent does not disapprove such transaction within such thirty-day period.

7. AGREEMENTS

The Company has entered into the following agreements:

- I. Services Agreement (Group Purchasing and Technical Support) with Independent Worker Services, Inc. (IWS);
- II. Magnacare Services Agreement (Provider and Facility Network) with MagnaCare Administrative Services, LLC;
- III. Benefits Administration Agreement (Billing and Enrollment Services) with Morneau Shepell Limited;
- IV. Administrative Services Agreement (Medical Management and Claims Adjudication and Processing) with POMCO Inc.; and
- V. Pharmacy Benefits Management Services Agreement with US Script, Inc.

In addition, Freelancers has an Institutional Client Agreement where Freelancers' Director of Finance, Michael P. Paduano, designates two individuals, himself and the Director of Operations, Allison Silvers, as fully authorized and empowered to transfer, endorse, purchase, sell, assign, and deliver any and all securities and other property specified, and to open one or more accounts with Wells Fargo Securities, LLC and to direct transactions in such accounts for the purpose of transferring, endorsing, purchasing, selling, assigning, dealing in, or transferring such securities or other property on behalf of Freelancers; and a Safekeeping Agency Agreement with Wells Fargo Bank, N.A. ("Wells Fargo"), whereby Freelancers appoints Wells Fargo as its Safekeeping Agent for certain securities.

8. CONCLUSION

Based upon the foregoing examination, it is concluded that the Company's capital and surplus is thirty-seven million, nine hundred eighty-seven thousand, two hundred seventy-three dollars (\$37,987,273), including a surplus note in the amount of forty-eight million, four hundred and one thousand, nine hundred thirty-four dollars (\$48,401,934). The funds supporting Capital and Surplus are on deposit with Wells Fargo Securities, LLC and Wells Fargo Bank, N.A.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM

PAGE NO.

A. Organization

It is recommended that the Company's board of directors meet no less than four times a year, in accordance with its by-laws.

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Respectfully submitted,

_____/S/_____

Edouard Medina
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

EDOUARD MEDINA, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____

Edouard Medina

Subscribed and sworn to before me

this _____ day of _____ 2013

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:

Edouard Medina

as a proper person to examine the affairs of

Freelancers Health Service Corporation

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

Corporation

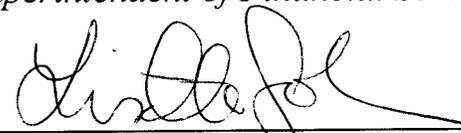
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 2nd day of July, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Lisette Johnson
Bureau Chief
Health Bureau



STATE OF NEW YORK,)
) FEIN: 45-3368051
COUNTY OF NEW YORK)

The undersigned, an executive officer of Freelancers Health Service Corporation (the "Company") duly sworn, depose and say under oath that, on this 9th day of July, 2013:

- (1) I, the undersigned, am an officer of the Company.
- (2) The Company's capital and surplus is thirty-seven million, nine hundred eighty-seven thousand, two hundred seventy-two dollars and fifty-three cents (\$37,987,272.53) (the "Capital and Surplus"), including a surplus note in the amount of forty-eight million, four hundred one thousand, nine hundred thirty-four dollars (\$48,401,934). The funds supporting Capital and Surplus are on deposit with the Wells Fargo Securities, LLC and Wells Fargo Bank, N.A.
- (3) That no part of said paid-in capital and surplus has been withdrawn, pledged or in any way impaired, except as wanted for investment or otherwise legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity and in strict conformity with the statutes on such case made and provided.
- (4) That no part or portion thereof has been loaned or advanced to the Company by any person, partnership or corporation for the purpose of being used as such paid-in capital and surplus.
- (5) That according to the best of my knowledge, information and belief, there was no intention or design existing on the part of any person or persons whomsoever, to withdraw any part or portion of the said paid-in capital or surplus until the same was or is wanted for investment or to be legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity in strict conformity with the statutes in such case and provided.
- (6) That there is no agreement or understanding, express or implied, made or existing between the Company or its officers, or any or either of them or any person or persons, to the effect of import that the money paid-in shall be loaned to any person or persons for his or their use or accommodation or pledged as security therefor, or upon any other securities, terms and conditions whatsoever.
- (7) That neither the Company, nor any of its officers is in any way, manner or form, pledged or committed to make any investment loan or disposition of said paid-in capital and surplus or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.

Michael P. Paduano 7/9/13
(Signature) Michael P. Paduano (Date)

Director of Finance
(Title)

Subscribed and sworn to before me this 9th day of July, 2013



(Signature)
MARIA PALAZZOLO
Notary Public, State of New York
No. 01PA6171956
Qualified in Kings County
Commission Expires July 30, 2015

(Notary Public Stamp)