

REPORT ON EXAMINATION

OF THE

STEUBEN AREA

SCHOOL EMPLOYEES' BENEFIT PLAN

AS OF

JUNE 30, 2005

DATE OF REPORT

EXAMINER

OCTOBER 12, 2006

JOSEPH S. KRUG

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Executive Summary	3
3.	Description of the Plan	3
	A. Management	4
	B. Territory and plan of operation	7
	C. Reinsurance	7
	D. Internal controls	8
	E. Annual statement preparation	9
4.	Financial Statements	10
	A. Balance sheet	10
	B. Statement of revenues and expenses	11
5.	Claims payable	12
6.	Market conduct activities	13
7.	Compliance with Report on Organization	19
8.	Summary of recommendations	20



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

October 12, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and in compliance with instructions contained in Appointment Number 22469, dated March 3, 2006 and annexed hereto, I have made an examination into the condition and affairs of the Steuben Area Schools Employees' Benefit plan, a municipal cooperative health benefit plan licensed under Article 47 of the New York Insurance Law, and submit the following report thereon.

The examination was conducted at the Plan's home office located at 9579 Vocational Drive, painted Post, New York.

Whenever the designation, the "Plan" appears herein without qualification, it should be understood to refer to Steuben Area Schools Employees' Benefit Plan.

1. SCOPE OF EXAMINATION

The previous examination, a Report on Organization, was dated December 31, 2000. This examination covers the period from January 1, 2001 through June 30, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of June 30, 2005, in accordance with Statutory Accounting Principles, as adopted by the New York Insurance Department, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Plan
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Growth of Company
- Business in force
- Loss experience
- Accounts and records
- Treatment of policyholders and claimants

A review was also made to ascertain what action was taken by the Company with regard to comments contained in the report on organization.

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. EXECUTIVE SUMMARY

The results of this examination revealed certain operational deficiencies during the examination period. The most significant findings of this examination include the following:

The Plan failed to submit its administrative agreements to the New York State Insurance Department for approval.

The Plan failed to comply with the provisions of Section 4303(s) of the New York Insurance Law and provide coverage for medical conditions leading to infertility.

The Plan failed to comply with the provisions of Section 4303(x) of the New York Insurance Law and provide coverage for post-mastectomy reconstruction.

The Plan failed to comply with the provisions of Section 4303(q) of the New York Insurance Law and provide coverage for cancer drugs.

The Plan failed to comply with the provisions of Section 4303(b)(b) of the New York Insurance Law and provide coverage for bone density measurements, testing, drugs, and devices.

The Plan failed to comply with the provisions of Section 4303(c)(c) of the New York Insurance Law and provide coverage for contraceptive drugs or devices.

3. DESCRIPTION OF THE PLAN

Steuben-Allegany Board of Cooperative Educational Services (BOCES) and its eight (8) original member school districts (participants) formed a Consortium, effective July 1, 1981. The purpose of the Consortium was to provide for the efficient and economic evaluation, processing, administration and payment of health benefits through self-insurance (the Plan). The Plan provides benefits to covered employees and their eligible dependents as defined in the plan booklet.

On June 1, 2001, the Plan was issued a certificate of authority by the Superintendent of Insurance under Article 47 of the New York Insurance Law. Pursuant to such certificate of authority, the participants have agreed to share the costs and assume the liabilities for medical, surgical, prescription drugs, and hospital benefits provided to covered employees (including retirees) and their dependents.

Plan members currently include seven (7) school districts and one (1) BOCES. The participants in the Plan, as of June 30, 2005, were as follows:

Arkport Central School
Avoca Central School
Campbell-Savona Central School
Canaseraga Central School
Canisteo-Greenwood Central School
Hammondsport Central School
Jasper-Troupsburg Central School
Steuben Allegany BOCES

A. **Management**

Pursuant to the Municipal Cooperative Agreement, management of the Plan is vested in the Governing Board comprised of one representative from each participating school district, including BOCES as a participant. As of the examination date, the board of trustees was comprised of eight (8) members. The board meets at least four times during each fiscal year. The governing board of the Plan as of June 30, 2005 was as follows:

<u>Name</u>	<u>Title and Municipality</u>
William Locke	Superintendent , Arkport Central School,
Gay Fairbrother	Business Manager, Avoca Central School,
Scott Layton,	Superintendent, Campbell-Savona Central School,
*Daniel McCarthy,	Interim Superintendent, Canaseraga Central School,
**Karen Moon,	Superintendent, Canisteo-Greenwood Central School,
Christopher Brown,	Superintendent, Hammondsport Central School,
Chad Groff	Superintendent, Jasper-Troupsburg Central School,
Margaret Munson, CFO	Steuben Allegany BOCES,

*Effective July, 2005, Marie Blum, Superintendent replaced Daniel McCarthy as representative of Canaseraga Central School on the governing board.

** Effective July, 2005, Lorraine Patti, Superintendent replaced Karen Moon as representative of Canisteo-Greenwood Central School on the governing board.

The Governing Board met quarterly in the months of October, January, April and June in each of the fiscal years of the examination period. The minutes of all meetings of the board of trustees were reviewed. All such meetings were well attended.

The Plan entered into contractual agreements with the following vendors to provide administrative services to the Plan:

- National Medical Health Card Systems, Inc. (NMHC) maintains an electronic system for processing and paying prescription drug claims and furnishing related services through a network of pharmacies and other professional facilities, for the purpose of administering the prescription drug benefit.
- Excellus Health Plan, Inc. (Excellus) provides processing of the medical and hospital claims, administrative services, preparation and delivery of reports required under the ASC agreement, medical review and managed care services, and maintenance of an adequate provider network.
- Orville A. Boden, Jr., an independent consultant, performs consulting services for the Plan related to rates, benefits and enrollment. He assists in the review and revision of the plan benefit structure and design. He is compensated monthly by means of a flat fee that was approved by the Board of Trustees.
- The Segal Company performs actuarial services for the Plan. These services include determination of rates for individuals and family members of the various school districts.

A review of the agreements with National Medical Health Card Systems, Inc. and Excellus Health Plan, Inc. indicated that both were signed, but were not submitted to the New York State Insurance Department for approval. Section 4710(a)(1) of the New York Insurance Law states:

“(a) The governing board of the municipal cooperative health benefit plan shall:

(1) file for approval with the superintendent a description of material changes in any information provided in the application for certificate of authority in the form and manner prescribed by the superintendent;...”

It is recommended the Plan submit its administrative agreements to the New York State Insurance Department for approval pursuant to the provisions of Section 4710(a)(1) of the New York Insurance Law.

The principal officers of the Plan as of June 30, 2005 were as follows:

<u>Officers</u>	<u>Title</u>
William Locke	President
Margaret Munson	Chief Financial officer
Rebecca Towner	Secretary

B. Territory and Plan of Operation

The Plan provides hospital, medical and pharmacy benefits in Steuben and Allegany counties within New York State. It should be noted that, as of June 30, 2004, Bradford Central School left the Plan. This resulted in a reduction in Plan membership of 46 members.

C. Reinsurance

As required by Section 4707 of the New York Insurance Law, the Plan maintains both aggregate stop-loss coverage as well as specific stop-loss coverage. The reinsurer is an accredited reinsurer in New York. Both agreements contain the insolvency clause prescribed by Section 1308(a)(2)(A)(i) of the New York Insurance Law. The following is a summary of the Plan's reinsurance program as of June 30, 2005:

Specific Excess Stop-loss Coverage

Excess of loss	100% of \$800,000 excess of \$200,000 per member, per contract year
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Aggregate Excess Stop-loss Coverage

Excess of loss	Aggregate Percentage Reimbursable (excess of attachment point) 100%
	Minimum Annual Aggregate Attachment Point \$13,787,882
	Maximum Employee Benefit Plan Losses per Benefit Period \$200,000
	Maximum Aggregate Benefit per Benefit Period \$1,000,000 (excess of annual aggregate attachment point)

D. Internal Controls

It was noted that, in some cases, checks received are not immediately deposited. Such checks are held in the unlocked desk drawer of the Plan's Secretary. Proper internal controls require that checks not deposited should be stored in a locked drawer.

It is recommended that checks received by the Plan that have not been deposited be kept in a locked drawer and deposited in the Plan's depository the next business day.

It was also noted that the check issuance procedure appears to demonstrate a control weakness. Regardless of check amount, only one signature is required. Checks over a certain amount should require two signatures. The Board of Trustees should determine the dollar amount of the checks that require two signatures.

It is recommended that checks exceeding a certain amount as established by the Plan's board of trustees be required to have two signatures.

E. Annual Statement Preparation

A review of the annual statements filed during the period under examination revealed several problem areas. It was noted that in fiscal years 2002, and 2005, the Plan submitted amended annual statements several months after filing its annual statement.

It is recommended that the Plan exercise an increased level of care in the preparation of its annual statements to avoid filing amended statements.

It was also noted during review of the Plan's annual statements that the Plan failed to break out its administrative expenses into the proper administrative expense categories in Report #2 – Statement of Revenue, Expenses and Net Worth. Rather, the Plan reported all of these expenses in one line. Proper accounting is to break these expenses into categories such as compensation; interest expense; occupancy, depreciation and amortization; and marketing. It should also be noted that in years 2001 and 2003 the Plan reported the administrative expenses on line 7 as an Aggregate write-in for other medical and hospital expenses.

It is recommended that the Plan accurately report its administrative expenses in Report #2 – Statement of Revenue, Expenses and Net Worth of the annual statement.

4. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and net worth as determined by this examination as of June 30, 2005. This statement is the same as the balance sheet filed by the Plan.

Assets

Cash and cash equivalents	\$	4,483,308
Claim deposit		<u>49,080</u>
 Total Assets	 \$	 <u><u>4,532,388</u></u>

Liabilities

Accounts payable	\$	1,068
Claims payable		<u>2,627,841</u>
 Total Liabilities	 \$	 <u><u>2,628,909</u></u>

Net Worth

Contingency reserves	\$	474,548
Retained earnings/fund balance		<u>1,257,313</u>
 Total Net Worth	 \$	 <u><u>1,731,861</u></u>
 Total Liabilities and Net Worth	 \$	 <u><u>4,532,388</u></u>

B. Statement of revenues and expenses

Net worth increased \$718,482 during the period from January 1, 2001 to June 30, 2005, detailed as follows:

Revenues:

Premiums (basic) community rated	\$42,801,504
Investment	<u>449,914</u>
Total revenues	\$43,251,418

Expenses:

Hospital and medical	\$24,106,423
Drug	<u>15,839,994</u>
Subtotal	\$39,946,417
Reinsurance expenses net of recoveries	<u>394,924</u>
Total Medical and Hospital	\$40,341,341
Revenues less Medical and Hospital	\$ 2,910,077

Administration:

Administrative expenses	\$ 2,145,813
Consulting expenses	<u>45,782</u>
Total Administration	\$ 2,191,595
Total Expenses	<u>42,532,936</u>
Net Income	<u><u>\$ 718,482</u></u>

NET WORTH

Net worth per report on organization, as of December 31, 2000		\$1,013,379
	<u>Increase in Net Worth</u>	
Net income	<u>\$718,482</u>	
Total increases	<u>\$718,482</u>	
Net increase in net worth		<u>718,482</u>
Net worth, per report on examination, as of June 30, 2005		<u>\$1,731,861</u>

5. CLAIMS PAYABLE

The examination liability of \$2,627,841 is the same as the amount reported by the Plan as of June 30, 2005. 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.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to subscribers and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The general review was directed at practices of the Plan in the following major areas:

- A) Sales
- B) Underwriting and rating
- C) Treatment of policyholders and claimants

No problem areas were encountered during the review of sales and underwriting and rating. However during the review of treatment of policyholders and claimants a problem area was encountered related to mandated benefits.

Mandated Benefits

A review of the Steuben's Plan Document (group contract) indicated that certain mandated benefits were not covered. Mandated benefits are required by Section 4303 of the New York Insurance Law: for the following:

1.) Medical conditions leading to infertility

Section 4303(s) of the New York Insurance Law states:

“A hospital service corporation or health service corporation which provides coverage for hospital care shall not exclude coverage for hospital care for diagnosis and treatment of correctable medical conditions otherwise covered by the policy solely because the medical condition results in infertility;”

It is recommended that the Plan comply with the provisions of Section 4303(s) of the New York Insurance Law and provide coverage for medical conditions leading to infertility.

2.) Post-mastectomy reconstruction

Section 4303(x) of the New York Insurance Law states:

“Every contract issued by a medical expense indemnity corporation, hospital service corporation or health service corporation which provides coverage for surgical or medical care shall provide the following coverage for breast reconstruction surgery after a mastectomy:

(A) all stages of reconstruction of the breast on which the mastectomy has been performed; and

(B) surgery and reconstruction of the other breast to produce a symmetrical appearance;

in the manner determined by the attending physician and the patient to be appropriate. Such coverage may be subject to annual deductibles or coinsurance provisions as may be deemed appropriate by the superintendent and as are consistent with those established for other benefits within a given policy. Written notice of the availability of such coverage shall be delivered to the group remitting agent or group contract holder prior to the inception of such contract and annually thereafter.”

It is recommended that the Plan comply with the provisions of Section 4303(x) of the New York Insurance Law and provide coverage for post-mastectomy reconstruction.

3.) Cancer drugs

Section 4303(q) of the New York Insurance Law states:

“Every policy issued by a medical expense indemnity corporation, a hospital service corporation or a health service corporation which provides coverage for prescribed drugs approved by the food and drug administration of the United States government for the treatment of certain types of cancer shall not exclude coverage of any such drug on the basis that such drug has been prescribed for the treatment of a type of cancer for which the drug has not been approved by the food and drug administration. Provided, however, that such drug must be recognized for treatment of the specific type of cancer for which the drug has been prescribed in one of the following established reference compendia:

(i) the American Medical Association Drug Evaluations;

(ii) the American Hospital Formulary Service Drug Information; or

(iii) the United States Pharmacopeia Drug Information; or recommended by review article or editorial comment in a major peer reviewed professional journal.”

It is recommended that the Plan comply with the provisions of Section 4303(q) of the New York Insurance Law and provide coverage for cancer drugs.

4.) Bone density measurements, testing, drugs, and devices

Section 4303(b)(b) of the New York Insurance Law states:

“A health service corporation or a medical service expense indemnity corporation which provides major medical or similar comprehensive-type coverage shall provide such coverage for bone mineral density measurements or tests, and if such contract otherwise includes coverage for prescription drugs, drugs and devices approved by the federal food and drug administration or generic equivalents as approved substitutes. In determining appropriate coverage provided by this paragraph, the insurer or health maintenance organization shall adopt standards which include the criteria of the federal Medicare program and the criteria of the national institutes of health for the detection of osteoporosis, provided that such coverage shall be further determined as follows:

(1) For purposes of this subsection, bone mineral density measurements or tests, drugs and devices shall include those covered under the criteria of the federal Medicare program as well as those in accordance with the criteria of the national institutes of health, including, as consistent with such criteria, dual-energy x-ray absorptiometry.

(2) For purposes of this subsection, bone mineral density measurements or tests, drugs and devices shall be covered for individuals meeting the criteria for coverage, consistent with the criteria under the federal Medicare program or the criteria of the national institutes of health; provided that, to the extent consistent with such criteria, individuals qualifying for coverage shall, at a minimum, include individuals:

(i) previously diagnosed as having osteoporosis or having a family history of osteoporosis; or

(ii) with symptoms or conditions indicative of the presence, or the significant risk, of osteoporosis; or

(iii) on a prescribed drug regimen posing a significant risk of osteoporosis; or

(iv) with lifestyle factors to such a degree as posing a significant risk of osteoporosis; or

(v) with such age, gender and/or other physiological characteristics which pose a significant risk for osteoporosis.

Such coverage may be subject to annual deductibles and coinsurance as may be deemed appropriate by the superintendent and as are consistent with those established for other benefits within a given policy.”

It is recommended that the Plan comply with the provisions of Section 4303(b)(b) of the New York Insurance Law and provide coverage for bone density measurements, testing, drugs, and devices.

5.) Contraceptive drugs or devices

Section 4303(c)(c) of the New York Insurance Law states:

“Every contract which provides coverage for prescription drugs shall include coverage for the cost of contraceptive drugs or devices approved by the federal food and drug administration or generic equivalents approved as substitutes by such food and drug administration under the prescription of a health care provider legally authorized to prescribe under title eight of the education law. The coverage required by this section shall be included in contracts and certificates only through the addition of a rider.”

It is recommended that the Plan comply with the provisions of Section 4303(c)(c) of the New York Insurance Law and provide coverage for contraceptive drugs or devices.

Section 4308(a) of the New York Insurance Law states:

“(a) No corporation subject to the provisions of this article shall enter into any contract unless and until it shall have filed with the superintendent a copy of the contract or certificate and of all applications, riders and endorsements for use in connection with the issuance or renewal thereof, to be formally approved by him as conforming to the applicable provisions of this article and not inconsistent with any other provision of law applicable thereto. The superintendent shall, within a reasonable time after the filing of any such form, notify the corporation filing the same either of his approval or of his disapproval of such form.”

It is recommended that the Plan include all mandated benefits within its Plan Document (group contract), and file the amended Plan Document for approval with the Superintendent of Insurance pursuant to Section 4308(a) of the New York Insurance Law.

7. COMPLIANCE WITH REPORT ON ORGANIZATION

The report on organization included one recommendation detailed as follows (page number refers to the report on organization):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reporting of Drug Claims</u>	
It is recommended that the Plan report the data in Exhibit 2 – Quarterly Claims Development Schedule for Drug Claims separately from the data for Hospital and Medical Claims in all future statement filings.	7
The Plan has complied with this recommendation..	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Administrative Agreements</u></p> <p>It is recommended the Plan submit its administrative agreements to the New York State Insurance Department for approval pursuant to the provisions of Section 4710(a)(1) of the New York Insurance Law.</p>	7
<p>B. <u>Internal controls</u></p> <p>1. It is recommended that checks received by the Plan that have not been deposited be kept in a locked drawer and deposited in the Plan's depository the next business day.</p> <p>2. It is recommended that checks exceeding a certain amount as established by the Plan's board of trustees be required to have two signatures.</p>	8 8
<p>C. <u>Annual Statement Preparation</u></p> <p>1. It is recommended that the Plan exercise an increased level of care in the preparation of its annual statements to avoid filing amended statements.</p> <p>2. It is recommended that the Plan accurately report its administrative expenses in Report #2 – Statement of Revenue, Expenses and Net Worth of the annual statement.</p>	9 9

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Mandated Benefits</u>	
1. It is recommended that the Plan comply with the provisions of Section 4303(s) of the New York Insurance Law and provide coverage for medical conditions leading to infertility.	14
2. It is recommended that the Plan comply with the provisions of Section 4303(x) of the New York Insurance Law and provide coverage for post-mastectomy reconstruction.	15
3. It is recommended that the Plan comply with the provisions of Section 4303(q) of the New York Insurance Law and provide coverage for cancer drugs.	16
4. It is recommended that the Plan comply with the provisions of Section 4303(b)(b) of the New York Insurance Law and provide coverage for bone density measurements, testing, drugs, and devices.	17
5. It is recommended that the Plan comply with the provisions of Section 4303(c)(c) of the New York Insurance Law and provide coverage for contraceptive drugs or devices.	17
6. It is recommended that the Plan include all mandated benefits within its Plan Document (group contract), and file the amended Plan Document for approval with the Superintendent of Insurance pursuant to Section 4308(a) of the New York Insurance Law.	18

Appointment No. 22469

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, Howard Mills, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Joseph Krug

as a proper person to examine into the affairs of the

Steuben Area Schools Employees' Benefit Plan

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

Municipal Cooperative Health Benefit Plan

with such information as he shall deem requisite.

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

this 3rd day of March 2006



Howard Mills
Superintendent of Insurance

