

REPORT ON EXAMINATION

OF THE

PAYCHEX INSURANCE CONCEPTS, INC.

AS OF

DECEMBER 31, 2014

DATE OF REPORT

MAY 3, 2016

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

Honorable Maria T. Vullo
Superintendent of Financial Services
Albany, New York 12257

May 3, 2016

Madam:

Pursuant to the requirements of the New York Insurance Law and in compliance with the instructions contained in Appointment Number 31414 dated January 21, 2016, attached hereto, I have made an examination into the condition and affairs of Paychex Insurance Concepts, Inc. as of December 31, 2014 and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Paychex Insurance Concepts, Inc.

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

1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2010 through December 31, 2014 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis or verification. Transactions occurring after this period were reviewed where deemed appropriate. The examination included a review of Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation as submitted to the Department and in compliance with Article 70 of the New York Insurance Law (the Law).

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the Law.

The report utilized work performed by the Company's independent certified public accountant and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

Paychex Insurance Concepts, Inc. is a wholly-owned subsidiary of Paychex, Inc., a leading provider of integrated human capital management solutions for payroll, Human Resources, retirement, and insurance services with over a hundred office locations across the nation.

The Company was incorporated under the laws of New York State as a captive insurance company on June 30, 2004 and commenced business on July 19, 2004. The Company provides workers' compensation deductible reimbursement coverage to Paychex Business Solutions, Inc. and all associated companies. Paychex Business Solutions, Inc. is a subsidiary of Paychex, Inc.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) and Section 114 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set-forth in Article 70 of the Law.

B. By-Laws

The examination found that the Company was in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain a total surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid-in capital pursuant to the provisions of Section 7004(a)(1) of the Law.

As of December 31, 2014, the Company's paid-in capital was \$3,980,000, consisting of 100,000 shares of common stock with a par value of \$1 per share and an additional paid-in capital amount of \$3,880,000. The Company had accumulated earnings of \$4,322,000, for a total capital and surplus (stockholder's equity) of \$8,302,000.

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Operations

During the period covered by this examination, the Company provided workers' compensation deductible reimbursement coverage to Paychex Business Solutions, Inc. and all associated companies. The limit of liability of the Workers' Compensation Deductible Reimbursement Policy was \$1,000,000 per occurrence with no aggregate limit.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the Law provides that no captive insurer shall do any captive insurance business in the State of New York unless it utilizes a captive manager resident in this state that is licensed as an agent or broker under the provisions of Article 21 of the Law, or any other person approved by the Superintendent.

During the examination period, the Company was managed by Marsh Management Services Inc. (Marsh) which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective July 8, 2013, Marsh has the responsibility for providing the Company with underwriting, policyholder service, claims, and other general management and operational services for a fee. These responsibilities include assisting the Company in complying with the rules, regulations and requirements of the Law and maintaining true and complete books of account and records for all business conducted under this agreement.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members, of which at least two shall be residents of New York State. At December 31, 2014, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Efrain Rivera Rochester, NY	Chief Financial Officer, Paychex, Inc.
Kevin N. Hill Pittsford, NY	Vice President, Paychex, Inc.
Lynn Belecki Rochester, NY	Manager of Business Development, Paychex, Inc.

In accordance with its by-laws and Section 7003(b)(2) of the Law, the board of directors met at least once annually, during the period covered by this examination. A review indicated that the meetings were well attended.

(iii) Officers

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kevin N. Hill	President
Stephanie Schaeffer	Secretary
Efrain Rivera	Treasurer

G. Certified Public Accountant

Ernst & Young, LLP was the Company's independent certified public accounting firm for the years 2010 to 2012, and PricewaterhouseCoopers, LLP (PWC) for the years 2013 and 2014. In its audited financial statement at December 31, 2014, PWC states that the Company's audited financial statements present fairly, in all material respects, the financial position of Paychex Insurance Concepts, Inc. at December 31, 2014.

3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

A. Balance SheetAssets

Cash	\$30,863,000
Premiums receivable	8,547,000
Deferred income taxes	1,525,000
Prepaid expenses and other assets	<u>1,564,000</u>

Total assets		<u>\$42,499,000</u>
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Liabilities

Unpaid losses and loss adjustment expenses	\$24,585,000
Unearned premiums	7,122,000
Premium deficiency reserve	462,000
Payable to parent	34,000
Losses payable	1,149,000
Accrued income taxes	799,000
Premium taxes payable	38,000
Other liability	<u>8,000</u>

Total liabilities		<u>\$34,197,000</u>
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Capital and Surplus

Common stock	\$100,000
Additional paid-in capital	3,880,000
Surplus (retain earnings)	<u>4,322,000</u>

Total capital and surplus		<u>\$8,302,000</u>
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Total liabilities, capital and surplus		<u>\$42,499,000</u>
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B. Statement of Income

The Company's net income for the examination period was \$13,679,000 as detailed below:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$79,374,000
Deductions:		
Loss and loss adjustment expenses incurred	\$55,837,000	
Management fee	1,680,000	
General and administrative expenses	489,000	
Change in premium deficiency reserve	462,000	
Amortization of deferred policy acquisition costs	<u>343,000</u>	
Total underwriting deductions		<u>58,811,000</u>
Net underwriting gain		\$20,563,000

Investment Income

Net investment income earned		<u>352,000</u>
Net income before tax		\$20,915,000
Income taxes		<u>7,236,000</u>
Net income		<u>\$13,679,000</u>

C. Capital and Surplus Account

The Company's capital and surplus decreased \$6,321,000 during the period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2010			\$14,623,000
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$13,679,000	\$0	
Shareholder dividend	_____	<u>20,000,000</u>	
Total increases and decreases in surplus	\$13,679,000	\$20,000,000	
Net decrease in surplus			<u>6,321,000</u>
Capital and surplus as of December 31, 2014			<u>\$8,302,000</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2014, the Company reported total loss and loss adjustment expense reserves of \$24,585,000. The Company's opining actuarial firm, Oliver Wyman Actuarial Consulting, Inc., stated in its Statement of Actuarial Opinion ("SAO") that the reserves met the requirements of the Law and was consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board. The SAO continued to state that the current reserves made a reasonable provision for all unpaid loss and allocated loss expense obligations of the Company as of December 31, 2014, under the terms of its contracts and agreements.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70. No significant areas of non-compliance were found.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

_____/s/_____

Wei Cao

Senior Insurance Examiner

STATE OF NEW YORK)

)ss:

COUNTY OF NEW YORK)

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

_____/s/_____

Wei Cao

Subscribed and sworn to before me

this _____ day of _____, 2016.

APPOINTMENT NO. 31414

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **SHIRIN EMAMI**, Acting 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:

Wei Cao

as a proper person to examine the affairs of the

Paychex Insurance Concepts, Inc.

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

COMPANY

with such other information as she shall deem requisite.

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

this 21th day of January, 2016

Shirin Emami
Acting Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

