

REPORT ON EXAMINATION
OF THE
CATSKILL AREA
SCHOOL EMPLOYEES BENEFIT PLAN
AS OF
JUNE 30, 2003

DATE OF REPORT
EXAMINER

JULY 23, 2004
JOSEPH S. KRUG

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

July 23, 2004

Honorable Gregory V. Serio
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 22159, dated April 1, 2004 and annexed hereto, I have made an examination into the condition and affairs of the Catskill 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 Robinson Terrace, Stamford, New York.

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

The Plan's Retained Earnings/Fund Balance as reported in the June 30, 2003 filed annual statement in the amount of \$891,077 was impaired in the amount of \$13,894. In the recently filed March 31, 2004 quarterly statement, the Plan reported its Retained Earnings/Fund Balance at \$612,278.

1. SCOPE OF EXAMINATION

The previous examination, a Report on Organization was dated September 30, 2000. This examination covers the period from October 1, 2000 through June 30, 2003. 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, 2003, 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. DESCRIPTION OF THE PLAN

Catskill Board of Cooperative Educational Services (BOCES) and its seventeen 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 April 1, 2000, 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.

There are 19 school districts participating in the Plan as follows:

Andes Central SD	Margaretville Central SD
Charlotte Valley Central SD	Milford Central SD
Cherry Valley/Springfield Central SD	Morris Central SD
Cooperstown Central SD	Otsego-Northern Catskill –BOCES
Delhi Central SD	Roxbury Central SD
Edmeston Central SD	South Kortright Central SD
Gilboa/Conesville Central SD	Stamford Central SD
Hunter-Tannersville Central SD	Windham-Ashland-Jewett Central SD
Jefferson Central SD	Worcester Central SD
Laurens Central SD	

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. The governing board of the Plan as of June 30, 2003 was as follows:

Governing Board

<u>Name</u>	<u>Title and Municipality</u>
John Bernhardt	Superintendent, Andes Central SD
Jerome Zack	Superintendent, Charlotte Valley Central SD
Nicholas Savin	Superintendent, Cherry Valley/Springfield Central SD
Mary Jo McPhail	Superintendent, Cooperstown Central SD
Maria Rice	Superintendent, Delhi Central School
David Rowley	Superintendent, Edmeston Central SD

<u>Name</u>	<u>Title and Municipality</u>
Mathew Murray	Superintendent, Gilboa/Conesville Central SD
Ralph Marino	Superintendent, Hunter-Tannersville Central SD
Edward Roche	Superintendent, Jefferson Central SD
Romona Wenck	Superintendent, Laurens Central SD
John Riedl	Superintendent, Margaretville Central SD
Peter Livshin	Superintendent, Milford Central SD
Michael Virgil	Superintendent, Morris Central SD
Mark Jones	Superintendent, Otsego-Northern Catskill –BOCES
James Proper	Superintendent, Roxbury Central SD
Benjamin Berliner	Superintendent, South Kortright Central SD
Joseph Beck	Superintendent, Stamford Central SD
Don Gibson	Superintendent, Windham-Ashland-Jewett Central SD
Maureen McNolty	Superintendent, Worcester Central SD

According to the Municipal Cooperative Agreement, the Governing Board shall meet quarterly in the months of October, January, April and July. The minutes of all meetings of the board of trustees were reviewed. All such meetings were well attended.

The principal officers of the Plan as of June 30, 2003 were as follows:

<u>Officers</u>	<u>Title</u>
Peter Livshin	Chairperson
Ed Roche	Vice Chairperson
Patricia Wagner	Treasurer
Ike Lovelass	Coordinator of Health and Dental Insurance
Kathy Bevins	Secretary

B. Territory and Plan of Operation

The Plan provides health benefits in Otsego, Delaware, Schoharie, and Greene counties within New York State.

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 authorized 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, 2003:

Specific Excess Stop-loss Coverage

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

Excess of loss	100% of \$800,000 excess of \$200,000 after 125% of expected benefits have been reached. (accredited reinsurer).
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4. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and net worth as determined by this examination as of June 30, 2003. This statement is the same as the balance sheet filed (third revision) by the Plan.

Assets

Cash and cash equivalents	\$ 4,749,885
Premiums receivable	322,629
Morris Fire Department Assessment	45,484
Due from dental/ other funds	171,447
Computer equipment	<u>16,625</u>
 Total Assets	 \$ <u><u>5,300,954</u></u>

Liabilities

Claims payable	\$ <u>4,409,877</u>
 Total Liabilities	 \$ <u>4,409,877</u>

Net Worth

Contingency reserves	\$ 904,971
Retained earnings/fund balance	<u>(13,894)</u>
 Total Net Worth	 \$ <u>891,077</u>
 Total Liabilities and Net Worth	 \$ <u><u>5,300,954</u></u>

The Plan's Retained Earnings/Fund Balance as reported in the June 30, 2003 filed annual statement was impaired in the amount of \$13,894. In the recently filed March 31, 2004 quarterly statement, the Plan reported its Retained Earnings/Fund Balance at \$612,278.

B. Statement of revenues and expenses

Net worth increased \$155,065 during the period from October 1, 2000 to June 30, 2003, detailed as follows:

Revenues:

Premiums (basic) community rated	\$42,591,469
Investment	262,785
Stop-loss claims	<u>278,243</u>
Total revenues	\$43,132,497

Expenses:

Hospital and medical	\$29,269,148
Drug	<u>12,131,402</u>
Subtotal	\$41,400,550
Reinsurance expenses net of recoveries	<u>(94,688)</u>
Total Medical and Hospital	\$41,305,862
Revenues less Medical and Hospital	\$ 1,826,635

Administration:

Occupancy, depreciation, and administration	\$ 22,166
Marketing	1,125
Stop-loss insurance	450,784
Public Goods Pool	539,001
Attorneys/auditors	42,542
Software and internet support	87,296
Miscellaneous consultant expense	8,897
Aggregate write-ins for other administrative expense	<u>519,759</u>
Total Administration	\$ 1,671,570
Total Expenses	<u>42,977,432</u>
Net Income	<u>\$ 155,065</u>

NET WORTH

Net worth per report on organization, as of September 30, 2000		\$736,012
	<u>Increases in Net Worth</u>	
Net income	<u>\$155,065</u>	
Total increases	<u>\$155,065</u>	
Net increase in net worth		<u>155,065</u>
Net worth, per report on examination, as of June 30, 2003		<u>\$891,077</u>

4. RETAINED EARNINGS/FUND BALANCE

The Plan's Retained Earnings/Fund Balance as reported in its June 30, 2003 filed annual statement was impaired in the amount of \$13,894. In the recently filed March 31, 2004 quarterly statement, the Plan reported its Retained Earnings/Fund Balance at \$612,278.

5. ACCOUNTS AND RECORDS

The Plan's financial activities are incorporated into the books and records of Otsego-Northern Catskill – BOCES (ONC BOCES) Trust and Agency Fund. ONC BOCES is the Plan's administrator hired by the Board of Trustees. The Plan's Board of Trustees has oversight over the Plan. For purposes of this examination, the Plan's records could be identified by the examiner. However, good business practice dictates that such records should be maintained separately. It should be noted that the Plan is currently in the process of separating these records.

It is recommended that the Plan's financial activities be separately recorded from those of ONC BOCES.

6. ANNUAL AND QUARTERLY STATEMENT PREPARATION

A review of the annual statements filed during the period under examination revealed several problem areas. In years 2000, 2001 and 2002, the Plan reported its claims on a paid basis rather than on an incurred basis. NY Schedule F – Claims Payable Analysis, Section 1 – Claims Incurred requires that claims be reported on an incurred basis. The last column of this schedule (column E) is entitled “Incurred This Year”. Also, an asterisk appears in a footnote which states “Must equal hospital and medical expenses accrued and unpaid which are reported on Report # 2, Lines 5 thru 7.” Report 2 is the Statement of Revenue, Expenses and Net Worth. The Plan did not comply with such instructions in its annual statement filings for the years 2000, 2001 and 2002.

It is recommended that the Plan report its claims on an incurred rather than a paid basis in compliance with the annual and quarterly statement instructions. A similar comment appeared in the Report on Organization.

The Plan also incorrectly completed the aforementioned NY Schedule F – Claims Payable Analysis for all years under examination. The Plan reported only IBNR amounts in Column C and Column D of NY Schedule F. These amounts should be the same amounts that are reported on line 2 of Report # 1 – Part B: Liabilities and Net Worth of the annual statement.

It is recommended that the Plan complete NY Schedule F – Claims Payable Analysis using the same claims payable amount reported on line 2 of Report # 1 – Part B:

Liabilities and Net Worth of its annual statement for both the current and prior year. A similar comment appeared in the Report on Organization.

Also it was noted that on several occasions, the Plan reported prior year amounts in its annual statement that differed from those corresponding amounts reported in the current year column of the prior years' filed annual statements.

It is recommended that the Plan refrain from reporting different balances in the prior year column from those amounts reported in the current year column in the prior years' filed annual statements.

Furthermore, it was noted that the Plan's submitted June 30, 2003 annual statement and March 31, 2004 quarterly statement were neither signed by the appropriate Plan officers nor properly notarized in the jurat section. It is essential that such filed statements be signed by the President, Secretary, and Chief Financial Officer of the Plan and be properly notarized as per the instructions for completion of such statements.

It is recommended that all filed annual and quarterly statements be signed by the Plan's President, Secretary, and Chief Financial Officer and that all filed annual and quarterly statements be properly notarized in accordance with the instructions for such statements.

It was also noted that the Board of Governors did not review the Plan's annual and quarterly statements prior to their submission to the Superintendent of Insurance.

Section 4710(a)(2) of the New York Insurance Law states in part,

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

...(2) annually, not later than one hundred twenty days after the close of the plan year, file a report with the superintendent showing the financial condition and affairs of the plan (including an annual independent financial audit statement and independent actuarial opinion) as of the end of the preceding plan year, in such form and providing such other information as the superintendent may prescribe...”

Section 4710(a)(3) of the New York Insurance Law states,

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

...(3) file a report each quarter with the superintendent describing the plan's current financial status and providing such other information as the superintendent may prescribe.”

It is recommended that the Plan's board of governors comply with the provisions of Section 4710(a)(2) and Section 4710(a)(3) of the New York Insurance Law and review the Plan's annual and quarterly statements prior to their submission to the Superintendent of Insurance.

A review of the Plan's quarterly statements revealed that several of these reports were not filed on a timely basis. The September 30, 2003 quarterly statement was not filed until May 10, 2004. The December 31, 2003 quarterly statement was also not filed

until May 10, 2004. Such statements should be filed no more than forty five days after the close of the quarter.

It is recommended that the Plan file its quarterly statements on a timely basis.

As noted above, the Plan experienced significant problems meeting its reporting requirements to this Department.

It is recommended that the Plan institute adequate staffing in its financial section.

It was noted during the examination period that there were numerous re-filings of the Plan's annual and quarterly statements. Because of the numerous refilings, the duties of the Chief Financial Officer should be more clearly delineated.

It is recommended that the responsibilities of the Chief Financial Officer be delineated.

7. 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 Explanation of Benefits Statements (EOBs). EOBs are an integral part of the link between the subscriber/contract-holder and their insurer, providing vital information as to how a claim was processed.

New York Insurance Law Section 3234(a) states in part:

“Every insurer, ... is required to provide the insured or subscriber with an explanation of benefits form in response to the filing of any claim...”.

New York Insurance Law Section 3234(c) creates an exception to the requirements for the issuance of an EOB established in New York Insurance Law Section 3234(a) as follows:

“[insurers] shall not be required to provide the insured or subscriber with an explanation of benefits form in any case where the service is provided by a facility or provider participating in the insurer’s program and full reimbursement for the claim, other than a co-payment that is ordinarily paid directly to the provider at the time the service is rendered, is paid directly to the participating facility or provider.”.

In addition, Section 3234(b) of the New York Insurance Law sets forth, minimum standards for content of an EOB as follows:

“The explanation of benefits form must include at least the following:

- (1) the name of the provider of service the admission or financial control number, if applicable;
- (2) the date of service;
- (3) an identification of the service for which the claim is made;
- (4) the provider’s charge or rate;
- (5) the amount or percentage payable under the policy or certificate after deductibles, co-payments, and any other reduction of the amount claimed;
- (6) a specific explanation of any denial, reduction, or other reason, including any other third-party payor coverage, for not providing full reimbursement for the amount claimed; and
- (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”.

A review of sample denied claims for members / providers residing or located in New York was performed. The review revealed that EOBs issued by the Company failed to contain all the language required by Section 3234(b)(7) of the New York Insurance Law, specifically relating to appeal rights. The sample form, as presented to the examiners would not be sufficient to serve as a proper EOB. The result is that subscribers were not properly informed of their appeal rights. Therefore, all claims processed either paid or wholly/partially denied to New York subscribers and/or providers were in violation of Section 3234(b), of the New York Insurance Law.

It is recommended that the Company issue EOBs that include all of the requisite information required by Section 3234(a) and (b) of the New York Insurance Law.

8. COMPLIANCE WITH REPORT ON ORGANIZATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Claims Payable Reserves</u></p> <p>It is recommended that the Plan have its actuary determine the claims payable reserve by using a systematic and rational method based upon prior years claim payment history.</p> <p>The Plan is using an approved New York State Insurance Department methodology to determine its claims payable reserve.</p>	<p>7</p>
<p>B <u>Annual Statement Preparation</u></p> <p>It is recommended that the Plan seek the assistance of both its actuary and CPA in completing its annual statement.</p> <p>The Plan has complied with this recommendation. However, as noted in the body of the report, the Plan continued to have difficulty with providing accurate and timely annual and quarterly report filings.</p>	<p>7</p>

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Retained Earnings/Fund Balance</u>	
The Plan's Retained Earnings/Fund Balance as reported in the June 30, 2003 filed annual statement was impaired in the amount of \$13,894. In the recently filed March 31, 2004 quarterly statement, the Plan reported its Retained Earnings/Fund Balance at \$612,278.	2, 7, 10
B. <u>Accounts and Records</u>	
It is recommended that the Plan's financial activities be separately recorded from those of ONC BOCES.	10
C. <u>Annual and Quarterly Statement Preparation</u>	
1. It is recommended that the Plan report its claims on an incurred rather than a paid basis in compliance with the annual and quarterly statement instructions.	11
2. It is recommended that the Plan complete NY Schedule F – Claims Payable Analysis using claims payable reported on line 2 of Report # 1 – Part B: Liabilities and Net Worth for both the current and prior year.	11-12
3. It is recommended that the Plan refrain from reporting different balances in the prior year column from those amounts reported in the current year column in the prior years' filed annual statements.	12
4. It is recommended that all filed annual and quarterly statements be signed by the Plan's President, Secretary, and Chief Financial Officer and that all filed annual and quarterly statements be properly notarized in accordance with the instructions for such statements.	12

<u>ITEM</u>	<u>PAGE NO.</u>
C.	
<u>Annual and Quarterly Statement Preparation (continued)</u>	
<u>5.</u> It is recommended that the Plan's board of governors comply with the provisions of Section 4710(a)(2) and Section 4710(a)(3) of the New York Insurance Law and review the Plan's annual and quarterly statements prior to their submission to the Superintendent of Insurance.	13
6. It is recommended that the Plan file its quarterly statements on a timely basis.	14
7. It is recommended that the Plan institute adequate staffing in its financial section.	14
<u>8.</u> It is recommended that the responsibilities of the Chief Financial Officer be delineated.	14
E.	
<u>Explanation of Benefits Statements</u>	
It is recommended that the Company issue EOBs that include all of the requisite information required by Section 3234(a) and (b) of the New York Insurance Law.	15-17

Respectfully submitted,

Joseph S. Krug
Associate Insurance Examiner

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

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

Joseph S. Krug

Subscribed and sworn to before me
This _____ day of _____ 2004

Appointment No. 22159

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, 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

Catskill Area Schools Employees Benefit Plan

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

Company

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 0 day of April 2004



Gregory V. Serio
Superintendent of Insurance

