REPORT ON EXAMINATION

OF THE

PUPIL BENEFITS PLAN, INC.

AS OF

DECEMBER 31, 2003

DATE OF REPORT	JUNE 9, 2004
EXAMINER	ELSAID E. ELBIALLY, CFE

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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 of Insurance

June 9, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment No. 22111 dated December 4, 2003, attached hereto, I have made an examination into the condition and affairs of Pupil Benefits Plan, Inc. as of December 31, 2003 and respectfully submit the following report thereon.

The examination was conducted at the Plan's home office located at 101 Dutch Meadows Lane, Glenville, New York 12302.

Whenever the term "Plan" appears herein without qualification, it should be understood to indicate Pupil Benefits Plan, Inc.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covered the seven year period from January 1, 1997 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets, liabilities and surplus as of December 31, 2003, in accordance with Statutory Accounting Principles as adopted by this Department, a review of income and disbursements deemed necessary to accomplish such verification, and utilized to the extent considered appropriate, work performed by the Plan'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 the Plan
Loss experience
Accounts and records
Market conduct activities

A review was also made to ascertain what action was taken by the Plan with regard to comments and recommendations in the prior report on examination.

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 PLAN

The Plan is a medical expense indemnity corporation, organized under Article 43 of the New York State Insurance Law, and commenced business on July 18, 1941.

A. Management

Pursuant to the Plan's charter and by-laws, management of the Plan is vested in a board of directors consisting of twenty-four members, who are elected annually. The by-laws state that at least one-fourth of the directors shall be persons other than physicians and/or dentists and at least one-fifth shall be physicians and/or dentists licensed to practice medicine in the State of New York. The majority of members of the board shall be designated representatives of the member schools of the New York State Public High School Athletic Association. The by-laws call for the board to meet once per year.

The directors of the Plan as of December 31, 2003, were as follows:

Name and Residence	Principal Business Affiliation
Provider Representatives	
Daniel DiChristina, M. D. Fayetteville, New York	Orthopedic Surgeon
Ritchie Parrotta, M.D. Wynantskill, New York	Physician
Frank Segretto, M. D. Ronkonkoma, New York	Orthopedic Surgeon
Public Representatives	
Dr. Sheridan Albert, DDS Schroon Lake, New York	Dentist
Dr. David Civale DC Scotia, New York	Chiropractor
Scott Dinse Wilson, New York	Director of Physical Therapy & Athletic Training, University at Buffalo, Sports Medicine Institute
Barbara Felice Holland Patient, New York	Athletic Director, Holland Patent CSD
Daniel MacGregor North Warren, New York	Retired Superintendent, North Warren CSD
Michael Picciano Weedsport, New York	President, Pupil Benefits Plan, Inc.
Dale Schumacher Whitney Point, New York	Retired Superintendent, Whitney Point CSD
Steven O'Shea Bethlehem, New York	Assistant Superintendent, Bethlehem CSD

Name and Residence	Principal Business Affiliation
Dr. Bruce Watkins New Rochelle, New York	Assistant Superintendent, Briarcliff Manor UFSD
John Wells Thousand Islands, New York	Athletic Director, Thousand Islands CSD
Theodore Woods North Rose, New York	Secretary, Pupil Benefits Plan, Inc.
Subscriber Representatives	
Richard Freyman Bronxville, New York	Assistant Superintendent, Bronxville UFSD
Jeffrey L'Amoreaux Whitney Point, New York	Assistant Superintendent, Whitney CSD
Michael Marcelle Scotia - Glenville, New York	Superintendent, Scotia-Glenville CSD
Dr. John Metallo Middleburgh, New York	Superintendent, Middleburgh CSD
James Michaelson Norwood, New York	Retired Coordinator of Athletics, Section X, Athletic Council
Cliff Moses Galway, New York	Superintendent, Galway CSD
Carol Rog Barneveld, New York	Retired Director of Physical ED., Chenango Forks CSD
Martha Slack Massena, New York	Athletic Director, Massena CSD
Dr. James Tolle Malverne, New York	Retired Superintendent, Malverne UFSD
Dean Veenhof Gilbertsville, New York	Past President, NYSPHSAA

Section 4301(k))(1) of the New York Insurance Law states;

> "…Of the directors not included in the classifications set forth in the preceding sentences, (A) one-half in number, as nearly as possible, shall be persons covered under a contract or contracts issued by such health service, hospital service or medical expense indemnity corporation, and who are generally representative of broad segments of such covered persons, and (B) one-half in number, as nearly as possible, shall be persons whose background and experience indicate that they are qualified to act in the broad public interest, whether or not they are persons covered under contract or contracts issued by such health service, hospital service or medical expense indemnity corporation."

A review of the composition of the Board of Directors revealed that the Plan was not in compliance with the requirements of Section 4301(k)(1)(A)&(B) of the New York Insurance Law.

It is recommended that the Plan change the composition of its Board of Directors to be in compliance with Section 4301(k)(1)(A)&(B) of the New York Insurance Law.

Also, the minutes of all meetings of the Board of Directors and committees thereof held during the examination period were reviewed. During the examination period, board meetings were generally well attended; however, the following directors had poor attendance records:

Name	Meetings Held	Attended	Percentage
Daniel DiChristina, M.D.	7	1	14.3%
Barbara Felice	6	1	16.7%
Ritchie Parrotta	5	0	0.0%
Martha Slack	6	2	33.3%
Brent Steuerwald	7	2	28.6%

Brent Steuerwald no longer served on the board at December 31, 2003.

Section 4301(k) (4) of the New York Insurance Law states;

> "A director of a corporation subject to this article shall automatically forfeit his office if (i) he fails to attend at least one of the regular meetings of the board of directors held during any period of eighteen consecutive months, or (ii) unless excused by the board of directors of which he is a member, which action shall be entered on the minutes of such board, it shall appear at the end of any calendar year that he failed to attend at least one-half of the regular meetings of such board held in such calendar year. A director whose office becomes vacant pursuant to the provisions of this paragraph shall not be eligible for election to such office for a period of one year from the date the vacancy occurred."

In accordance with Section 4301(k)(4) of the New York Insurance Law, it is recommended that Directors Daniel DiChristina,M.D., Barbara Felice, Ritchie Parrotta and Martha Slack forfeit their office immediately.

The non-salaried officers of the Plan at December 31, 2003 were as follows:

Name	Title
Michael Picciano	President
Carol Rog	Vice-President
Theodore Woods	Secretary

The salaried officer of the Plan at December 31, 2003 was as follows:

Name	Title
Thomas McGuire	Executive Director and Treasurer

B. Territory and Plan of Operation

The Plan is authorized to operate throughout New York State. All business is conducted from its home office.

The Plan provides medical, hospital and dental benefits for accidental bodily injury sustained by elementary and high school students while engaging in school sponsored activities. Benefits under the Plan's policies are secondary; therefore, all other primary insurance policies must be exhausted before payment may be made by the Plan. The Plan's maximum exposure per injury is $50,000.

Enrollment in the Plan is achieved by means of group contracts available to all elementary, middle and high schools registered and approved by the Board of Regents of the State of New York. For the 2003/2004 school year, the Plan insured 366 schools with approximately 695,252 insured students. Total direct premiums written during calendar year 2003 was $3,075,680.

C. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003 based upon the results of this examination:

Net premiums written (2003) to Surplus as regards policyholders	.8 to 1
Cash and invested assets to Unpaid claims	416.8%
Surplus to Unpaid claims	217.3%
Claims and expenses paid to Premiums written for the year ending December 31, 2003	95.1%

The underwriting ratios presented below are on an earned-incurred basis and encompass the seven year period covered by this examination:

	Amounts	Ratios
Claims incurred	$12,455,879	69.1%
Claims adjustment expenses incurred	1,724,134	9.6%
Other underwriting expenses incurred	2,168,820	12.0%
Net underwriting gain	1,667,317	9.3%
Premiums earned	$18,016,150	100.0%

D. Limitation of Expenses

In accordance with the provision of Section 4309(a)(2) of the New York Insurance Law, the Plan's expenditures, during any one year, for expenses other than benefit payments made to or on behalf of persons covered under contracts issued by the Plan, are limited to 19% of its premiums received during such year.

Section 4309(a)(2) of the New York Insurance Law states in part:

> "No corporation subject to the provisions of this article shall, during any one year, disburse more than the percentages hereafter prescribed of the aggregate amount of the premiums received during such year as expenditures for expenses,…twenty per centum reduced by one per centum for each five million dollars or fraction thereof above one million dollars of premiums received…."

The examination review revealed that the Plan's ratio of expenses paid to direct premiums written, for six of the seven years under examination, was not within the maximum ratio permissible pursuant to the provisions of Section 4309(a)(2) of the New York Insurance Law, as follows:

Year	Direct premiums written	Expenses paid	Expense ratio	Maximum allowable
1997	$2,582,135	$468,279	18.14%	19%
1998	$2,447,205	$487,686	19.93%	19%
1999	$2,509,187	$559,093	22.28%	19%
2000	$2,472,420	$568,596	23.00%	19%
2001	$2,351,117	$622,293	26.47%	19%
2002	$2,599,575	$672,511	25.87%	19%
2003	$3,075,680	$652,711	21.22%	19%

It is recommended that the Plan comply with Section 4309(a)(2) of the New York Insurance Law relative to the limitation of expenses.

E. Limitation of Investments

The review of investment transaction revealed that the Plan violated Section 1409(a) of the New York Insurance Law, which prohibits investing more than 10% of the Plan's admitted assets in any one institution.

Section 1409(a) of the New York Insurance Law states in part:

> "…, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities …. of any one institution."

The Plan's excess investment in one mutual fund during calendar years 2002 and 2003 was more than two million dollars. However, as of December 31, 2003, such excess investment was reduced to $97,044.

It is recommended that the Plan comply with the investment limitation of Section 1409(a) of the New York Insurance Law.

F. Approval of Investments

Section 1411(a) of the New York Insurance Law, states:

> "No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

A review of the minutes of meetings of the Plan's board of directors and executive committee held during the examination period revealed that the Plan did not comply with

the requirement of Section 1411(a) of the New York Insurance Law. Investment reports were provided to the board of directors on a periodic basis, however, specific investments were neither approved by the board nor by any committee thereof.

It is recommended that the Plan comply with the requirements of Section 1411(a) of the New York Insurance Law.

G. Custodian and Investment Agreements

The prior report on examination included a recommendation that, "It is once again recommended that the Plan amend its custodian agreement to include the protective covenants and provisions outlined in order to meet the minimum guidelines established by this Department for the contents of such agreements".

The Plan did not comply with the above mentioned recommendation. Furthermore, in June 2003, the Plan entered into an investment agreement entitled "Managed Assets Agreement" with an investment advisor under which a sweep checking account and investment account in the name of the Plan were opened and the Plan's assets were transferred to the custodian of its new investment advisor.

The investment agreement with the new investment advisor provided for the investment advisor to act as both the asset manager and as the custodian of securities for the Plan.

Safekeeping of Assets:

It has been the Department's long standing position that a security brokerage firm or an investment advisor should not be used as a custodian of an insurer's securities, even if such securities are re-deposited by the custodian broker/advisor with the Depository Trust Company. Any assets held in such an arrangement would be treated as not-admitted assets. In order for securities to be given "Admitted Assets Status", the securities must be transferred and deposited directly by the insurer with a licensed bank or a trust company.

It is recommended that the Plan execute a proper custodian agreement with a bank for its investment and sweep accounts. The custodian agreement should include the prudent protective provisions as set forth in the Department's guidelines.

In addition, it is recommended that the Plan execute a new investment agreement with its investment advisor, which provides for adequate control on the part of the Plan over its securities. It is further recommended that such agreement should preclude the investment advisor from acting as a custodian of the Plan's securities.

H. Internal Control

Blank checks

The Plan does not maintain adequate internal control with regard to the issuance of its checks. Checks are printed on blank check stock and are produced by the computer system (the system calculates the check amount, assigns the check number, prints the bank account number on the check, and also endorses the check). The endorsement requires a graphic file, contained on a floppy diskette, which is stored in the safe. Checks over $3,000 require a manual signature. Virtually all employees are able to produce checks using a laser printer. Only two employees have keys to the safe in which the Plan's blank checks are stored, but all employees have access to the safe once it is open. It is noted that the safe is left unlocked throughout the workday.

It is recommended that only one person should have the key to the safe where the Plan's blank checks are stored. The Plan's safe should remain locked at all time. In addition, it is recommended that two manual signatures be required for checks over a specified amount that is approved by the Board of Directors.

Abandoned Property - Uncashed checks

The Plan's current procedures with regard to uncashed checks are as follows:

Checks remain outstanding for up to two years. Those checks that are still outstanding at the close of the year subsequent to the year the check was issued (i.e. 2001 checks still outstanding at year-end 2002) are restored to cash by journal entry and a liability account for unclaimed checks is opened. This journal entry is prepared at the

end of each year. After the checks are restored to cash, the Plan sends out an uncashed check inquiry letter to each claimant. Checks remain in the liability account for uncashed checks until such time as they are to be submitted to the New York State Comptroller's office as Abandoned Property.

It is recommended that the Plan establish a follow-up procedure and send an initial letter of inquiry to the payee for all checks which remain outstanding for six months from the date of issue.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, reserves and unassigned funds as determined by this examination as of December 31, 2003 and as reported by the Plan. This statement is the same as the balance sheet filed by the Plan.

Assets	Ledger Assets	Non-ledger Assets	Assets Not Admitted	Net admitted Assets
Bonds	$4,727,317	$ 0	$ 0	$4,727,317
Common stocks	1,316,272	0	0	1,316,272
Real estate	335,528	0	0	335,528
Cash and short-term investments	957,409	0	0	957,409
Uncollected premiums	85,026	0	0	85,026
Investment income due and accrued	54,191	0	0	54,191
Furniture and equipment	14,742	0	14,742	0
Federal taxes recoverable	19,499	0	0	19,499
Other amounts receivable	7,609	0	0	7,609
Prepaid expenses	1,673	0	1,673	0
Total assets	$7,519,266	$ 0	$16,415	$7,502,851

Liabilities	
Claims unpaid	$1,760,000
Unpaid claims adjustment expenses	253,000
Unearned premiums	1,615,697
General expenses due or accrued	30,999
Liability for unclaimed checks	18,222
Total liabilities	$3,677,918

Reserves and Unassigned Funds	
Statutory reserve	$ 403,267
Unassigned funds	3,421,666
Total reserves and unassigned funds	$3,824,933
Total liabilities, reserves and unassigned funds	$7,502,851

Note: Effective July 1, 1987, the Plan became subject to Federal income taxes. To date, the Plan has never been audited by the Internal Revenue Service. The examiner is

unaware of any potential exposure of the Plan to any further tax assessment and no liability has been established here in relative to such contingency.

B. Underwriting and Investment Exhibit

Reserves and unassigned funds increased $2,261,302 during the seven year examination period, January 1, 1997 through December 31, 2003, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$18,016,150
Deductions		
Claims incurred	$12,455,879	
Claims adjustment expenses incurred	1,724,134	
Soliciting	368,251	
Administrative expenses incurred	1,800,569	
Total underwriting deductions		16,348,833
Net underwriting income		$1,667,317
Investment Income		
Net investment income earned	$1,171,339	
Net realized capital gain	322,923	
Net investment income		1,494,262
Other Income		
Miscellaneous		2,343
Net income before federal income taxes		$3,163,922
Federal income taxes incurred		1,041,671
Net income		$2,122,251

Reserves and Unassigned Funds

Reserves and unassigned funds, December 31, 1996 per prior report on examination			$1,563,631
	Surplus		
	Increase	Decrease	
Net income	$2,122,251		
Change in not-admitted assets	43,691		
Net unrealized capital gain	95,360		
Total	$2,261,302	$ 0	
Net increase in reserves and unassigned funds			2,261,302
Reserves and unassigned funds, December 31, 2003 per report on examination			$3,824,933

4. CLAIMS UNPAID

The examination liability of $1,760,000 is the same as the amount reported by the Plan as of December 31, 2003. 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.

5. 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 policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation.

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

A. Sales and advertising
B. Underwriting and rating
C. Claims processing
D. Prompt Pay Law

Claims processing

(A) New York Insurance Department Regulation No. 64 (11 NYCRR 216.0(e)(6)) requires the Plan to distribute copies of Regulation No. 64 to every person handling claims. The examiner noted that the Plan's claim examiners were unaware of said regulation.

Regulation No. 64 (11 NYCRR 216.0(e)(6)) states:

> "Every insurer shall distribute copies of this regulation to every person directly responsible for the supervision, handling and settlement of claims subject to this regulation, and every insurer shall satisfy itself that all such personnel are thoroughly conversant with, and are complying with this regulation."

It is recommended that the Plan comply with New York Insurance Department Regulation No. 64 (11NYCRR 216.0(e)(6)) and distribute a copy of Regulation No. 64 to

every person directly responsible for the supervision, handling and settlement of claims subject to such regulation. It is further recommended that the Plan satisfy itself that all such personnel are thoroughly conversant with, and are complying with Regulation No. 64.

(B) Pending claims:

The Plan maintains a claims status entitled, "Settled/No Payment", which denotes that such claims have not reached final adjudication. In cases where the Plan receives a claim form and a bill and then requests an EOB from the primary insurance carrier but does not receive it, the Plan's practice is to keep the claim open as pending.

It is also the Plan's practice to keep claims open as pending with a status "Awaiting Requested Information", if no information is received within 30 days of the request for information. The Plan sends a letter informing the recipient that the claim is being made inactive, but would be processed at the time that the requested information is submitted. The claim may reside for 6 years in the claims system without ever being truly adjudicated; even if the claim has no real reasonable possibility of ever having to be paid. The claims are purged from the system after 6 years.

It is recommended that the Plan adopt procedures to complete the adjudication of all claims within 12 months from the date the claim is received except in specific situations where additional time is warranted.

In addition, it is recommended that the Plan deny claims for which information necessary to process the claim was requested, but not received and issue an EOB to the subscriber, in compliance with Section 3234 of the New York Insurance Law.

(C) Explanation of Benefits Statements:

Explanation of Benefits Statements (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, including health maintenance organizations … is required to provide the insured or subscriber with an explanation of benefits form in response to the filing of any claim under a policy…"

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 by the insurer 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 a sample of the Plan's paid and denied claims for members/providers residing or located in New York during the year 2003 was performed. The review revealed that EOBs issued by the Plan failed to contain all the language required by Section 3234(b) of the New York Insurance Law (including the appeal language). The Plan's EOBs, in the form as presented to the examiners would not be sufficient to serve as a proper EOB. The subscribers were neither properly informed of their appeal rights nor were they advised how their claims were processed. 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 Plan issue EOBs that include all of the requisite information required by Sections 3234(a) and (b) of the New York Insurance Law.

Accordingly, subscribers will be properly informed of their appeal rights and how their claims are processed.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The examiner reviewed the Plan's compliance with the following seven comments and/or recommendations from the prior report on examination. The page numbers refer to the prior report:

ITEM.	PAGE NO.
A. Management	
i. It is recommended that the Plan conform to the requirements of its by-laws as regards the number of directors. The Plan has complied with this recommendation.	3
ii. It is recommended that Karl Freidman, M.D. forfeit his office in compliance with Section 4301 (k)(4) of the Law. Karl Freidman, M.D. is no longer member of the board of directors. However, a similar recommendation is included in this report	5
iii. It is recommended that the Plan comply with the provisions of Section 4301(k)(2)(B) of the New York Insurance Law by submitting the required information for newly elected directors to this Department in a timely manner. The Plan has complied with this recommendation.	6
B. Significant Operating Ratios	
It is recommended that the Plan comply with Section 4309(a)(2) of the New York Insurance Law pertaining to the limitation of expenses. The Plan did not comply with the recommendation. The Plan exceeded the expense limitation established by Section 4309(a)(2) for all seven years under this examination. A similar recommendation is included in this report.	8

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C. Statutory Reserve Fund

It is recommended that the Plan comply with the requirements of Section 4310(d) of the New York Insurance Law and Department Circular Letter 17 (1986). 9

The Plan has complied with this recommendation.

D. Custodian Agreement

It is once again recommended that the Plan amend its custodian agreement to include the protective covenants and provisions which meet the guidelines established by this Department for the contents of such agreements. 10

The Plan did not comply with the recommendation. A similar recommendation is included in this report.

E. Approval of Investments

It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law. 11

The Plan did not comply with the recommendation. A similar recommendation is included in this report.

F. Fidelity Insurance

It is recommended that the Plan obtain fidelity insurance at the suggested minimum amount of $75,000 - $100,000. 12

The Plan has complied with the recommendation.

G. Market Conduct Activities

It is recommended that the Plan comply with the requirements of Department Circular Letter 11 (1978) by maintaining a central log to register and monitor all complaint activity 17

The Plan has complied with the recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	It is recommended that the Plan change the composition of its Board of Directors to be in compliance with Section 4301(k)(1)(A)&(B) of the New York Insurance Law.	6
B.	In accordance with Section 4301 (k)(4) of the New York Insurance Law, it is recommended that Directors Daniel DiChristina,M.D., Barbara Felice, Ritchie Parrotta and Martha Slack forfeit their office immediately.	7
C.	It is recommended that the Plan comply with Section 4309(a)(2) of the New York Insurance Law relative to the limitation of expenses.	10
D.	The Plan was in violation of Section 1409(a) of the New York State Insurance Law, which prohibits an insurer to have more than 10% of its net admitted assets invested in any one entity. It is recommended that the Plan comply with the investment limitation of Section 1409(a) of the New York Insurance Law.	11
E.	It is recommended that the Plan comply with the requirements of Section 1411(a) of the New York Insurance Law.	12
F.	It is recommended that the Plan execute a proper custodian agreement with a bank for its investment and sweep accounts. The custodian agreement should include the prudent protective provisions as set forth in the Department's guidelines.	13
G.	It is recommended that the Plan execute a new investment agreement with its investment advisor, which provides for adequate control on the part of the Plan over its securities. It is further recommended that such agreement should preclude the investment advisor from acting as a custodian of the Plan's securities.	13
H.	It is recommended that only one person should have the key to the safe where the Plan's blank checks are stored. The Plan's safe should remain locked at all times. In addition, it is recommended that two manual signatures be required for checks over a specified amount that is approved by the Board of Directors.	14

ITEM PAGE NO.

I. It is recommended that the Plan establish a follow-up procedure and send an initial letter of inquiry to the payee for all checks which remain outstanding for six months from the date of issue. 15

J. It is recommended that the Plan comply with the Insurance Department Regulation No. 64 (11NYCRR 216.0(e)(6)) and distribute a copy of Regulation No. 64 to every person directly responsible for the supervision, handling and settlement of claims subject to such regulation. It is further recommended that the Plan satisfy itself that all such personnel are thoroughly conversant with, and are complying with Regulation No. 64. 20

K. It is recommended that the Plan adopt procedures to complete the adjudication of all claims within 12 months from the date the claim is received except in specific situations where additional time is warranted. 21

In addition, it is recommended that the Plan deny claims for which information necessary to process the claim was requested, but not received and issue an EOB to the subscriber, in compliance with Section 3234 of the New York Insurance Law. 21

L. It is recommended that the Plan issue EOBs that include all of the requisite information required by Sections 3234(a) and (b) of the New York Insurance Law. Accordingly, subscribers will be properly informed of their appeal rights and how their claims are processed. 23

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Appointment No. ***22111***

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:

Elsaid ElBially

as a proper person to examine into the affairs of the

Pupil Benefits Plan, Inc.

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 *4th* day of *December 2003*

Gregory V. Serio
Superintendent of Insurance