NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

EAST END HEALTH PLAN

CONDITION: DECEMBER 31, 2011

DATE OF REPORT: MARCH 1, 2013

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EXAMINER: SHARON REYNOLDS

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March 27, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

Pursuant to instructions contained in Appointment No. 30808, dated October 16, 2012 and annexed hereto, an examination has been made of the condition and affairs of the East End Health Plan hereinafter referred to as the "Health Plan," at the principal office of the Health Plan, located at Eastern Suffolk BOCES, 201 Sunrise Highway, Patchogue, New York 11772.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Health Plan's financial condition as presented in its financial statements contained in the December 31, 2011 filed annual statement. (See item 4 of this report)

The Health Plan violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred. (See item 3 of this report)

The Health Plan violated Section 201.1(a)(2)(i) of Department Regulation No. 38 by failing to give the Department written notice within 10 days after amending plan benefits. (See item 3 of this report)

The examiner recommends that the Health Plan review their expenses to determine what budget revisions may be required to alleviate the deficit they experienced at December 31, 2011. (See item 4 of this report)

The Health Plan violated Section 4405(b) of the New York Insurance Law by failing to provide convenient access to the Health Plan's health claim files and claim procedures. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2011. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2011 but prior to the date of this report (i.e., the completion date of the examination).

This examination comprised a verification of the Health Plan's assets and liabilities as of December 31, 2011 to determine whether the Health Plan's filed December 31, 2011 annual statement fairly presents its financial condition. The examiner reviewed the Health Plan's income and disbursements necessary to accomplish such verification and utilized examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Health Plan history
Management and control
Health Plan records
Member benefits and contributions
Market conduct activities
Growth of Health Plan
Accounts and records
Financial statements

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules or which require explanation or description.

3. DESCRIPTION OF HEALTH PLAN

The Health Plan was established on December 18, 1990 pursuant to a Trust Agreement between the Board of Trustees of the East End Health Plan (the "Trustees") and the participating Board of Cooperative Educational Services ("BOCES") and school districts (the "Employers"). The Trust Agreement provides that the purpose of the Health Plan is to provide health benefits including hospital, surgical, major medical, prescription and optical. Covered employees of the Health Plan include employees of contributing school districts with a regular work schedule of 20 hours or more per week. As of the date of this examination, the following 13 school districts participated in the Health Plan: East Quoque Union Free School District, Eastern Suffolk BOCES, Montauk Union Free School District, Oysterponds Union Free School District, Quogue Union Free School District, Remsenburg-Speonk Union Free School District, Shelter Island Union Free School District, Southampton Union Free School District, Southold Union Free School District, Tuckahoe Common School District, Westhampton Beach Union Free School District, Greenport Union Free School District and New Suffolk Common School District.

The December 31, 2011 annual statement indicated that there were approximately 1,969 participants.

A. Management

The Trust Agreement requires that the board of trustees consist of three board of education members (each from different school districts), two superintendents of schools, one BOCES representative, four teacher members (each from different school districts), one civil service employee, and one non-central office administrator, all of whom are to serve without bond and without compensation.

The following is a list of the trustees, as well as their principal business affiliation, as of December 31, 2011.

Name	Principal Business Affiliation	Year First Appointed
Richard Benson	Superintendent of Schools	2002
Patti DiGregorio	Civil Service Representative	2009
Dr. Frank Emmet	Teacher	2000
Timothy Frazier	Non-central Office Administrator	2006
Dr. Gregory Frost	Board of Education Member	2000
Nicholas Mangieri	Teacher	2004
Heather McCallion	Board of Education Member	2011
Paulette Ofrias	Board of Education Member	2008
J. Philip Perna	Superintendent of Schools	1996
Lauren Porter	Teacher	2009
Barbara Salatto	Board of Education Member	2009
Thelma Shaw	Teacher	2001

A review of the minutes indicated that the trustees' meetings were well attended.

Section 201.1 of Department Regulation No. 38 states, in part:

"The trustees of every employee welfare fund shall give written notice to the Insurance Department of:
(a) Any of the following changes, within 10 days after it shall have occurred . . .
(4) Any change in the membership of the board of trustees . . . or in its administrator . . ."

In 2007, Mr. Richard Caggiano replaced Ms. Linda Goldsmith, Mr. David Dubin replaced Mr. Paul Mayo and Ms. Emily Barltte replaced Ms. Mary Ann Suozzi. In 2008, Ms. Paulette Ofrias replaced Mr. Richard Caggiano. The Health Plan failed to notify the Department, in writing, of any of the changes made to the board of trustees within 10 days after the changes had occurred.

The Health Plan also changed their health administrator from Vytra to UnitedHealthCare Service LLC, effective July 1, 2006 and changed their prescription drug administrator from Caremark to ProAct, effective January 1, 2011. The Health Plan failed to notify the Department, in writing, of the change of their health administrator and prescription drug administrator within 10 days after the changes had occurred.

The Health Plan violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred.

In March 2012, Ms. Cindy Goldsmith-Agosta replaced Dr. Frank Emmett, in May 2012 Mr. Robert Love replaced Ms. Thelma Shaw and in September 2012 Mr. Donald King replaced Ms. Heather McCallion.

B. Investment Powers of the Trustees

The Trust Agreement empowers the trustees to invest in investments legal for trust funds under the laws of the State of New York.

As of December 31, 2011, the Health Plan’s assets were mainly comprised of cash (100%).

C. Member Benefits

The Health Plan provides the following self-insured benefits to members and their eligible dependents:

Self-insured benefit	Coverage
Vision care	Eye examination, eyeglass lenses or contact lenses and frames every 12 months at no cost, through participating providers. The Health Plan also provides for reimbursement of out-of-network expenses per a schedule.
Hospital, surgical, and major medical	These benefits are no less than those offered by the Empire Plan. Services provided through participating providers are subject to a co-payment only. The Health Plan also provides for reimbursement of 80% of reasonable and customary out-of-network expenses, subject to a deductible and an annual maximum.
Prescription drugs	A 30-day supply of prescription drugs is available through participating retail pharmacies, subject to a co-payment. A 90-day supply of prescription drugs is available through a mail order pharmacy, subject to a co-payment.
Flexible spending plan	Dependent care and health care reimbursements

Section 201.1 of Department Regulation No. 38 states, in part:

"The trustees of every employee welfare fund shall give written notice to the Insurance Department of:
(a) Any of the following changes, within 10 days after it shall have occurred . . .
(2) Any amendment to, substitute for, or other change in . . .
(i) the plan . . ."

The Health Plan made the following changes to their benefit plan during the examination period:

1) the Health Plan amended its plan regarding mental health benefits based on the requirements of Timothy's Law, retroactive to January 1, 2007;
2) the Health Plan added routine annual preventative physical exams for members under the age of 50, covered in-network, subject to a co-pay, retroactive to July, 2006;

3) the Health Plan added coverage for dependents through the age of 29 as per provisions of the New York State Law, effective January 1, 2010;
4) the Health Plan increased coverage for all eligible members to 36 months effective January 1, 2010;
5) the Health Plan amended benefits to comply with the provisions of the Federal Mental Health Parity and Addiction Equity Act, effective January 1, 2010;
6) the Health Plan extended cranial prosthesis (wigs) coverage to members with Alopecia, limited to a maximum of $750 per year, effective immediately.

The Health Plan failed to notify the Department, in writing, of the changes made to their plan benefits.

The Health Plan violated Section 201.1(a)(2)(i) of Department Regulation No. 38 by failing to give the Department written notice within 10 days after amending plan benefits.

D. Contributions

During the period under examination, employers made the following monthly contribution per individual or family:

School Year	Individual Contribution	Family Contribution
2006-2007	$516	$1,172
2007-2008	$567	$1,285
2008-2009	$601	$1,362
2009-2010	$608	$1,375
2010-2011	$626	$1,416
2011-2012	$682	$1,543

E. Information to Members

The Health Plan's records indicate that annual reports are distributed to all members through an internet website. The website, EEHP.org, is accessible to all members and describes the Health Plan's benefits and procedures.

4. FINANCIAL STATEMENTS

The following statements indicate the changes in assets, liabilities and reserve fund balance between the years ended January 1, 2007 and December 31, 2011, changes in the reserve fund balance for the period under examination, and a reconciliation of the reserve fund and balance for each of the years under examination as extracted from the Health Plan's filed annual statements.

A. STATEMENT OF ASSETS, LIABILITIES AND RESERVE FUND BALANCE

The following table indicates the Health Plan's financial growth during the period under review:

	December 31, 2006	December 31, 2011	Increase (Decrease)
Assets			
Contributions receivable	$ 84,930	$ 226,053	$ 141,123
Bank deposits at interest and deposits or shares in savings and loan associations	2,127,069	2,530,113	403,044
Formulary rebates	0	148,770	148,770
Prepaid expenses	4,737	13,011	8,274
Deposits held for claims	150,000	0	(150,000)
Total assets	$ 2,366,736	$2,917,947	$ 551,211
Liabilities and reserve fund balance			
Unpaid claims	$ 3,274,297	$2,763,563	$ (510,734)
Accrued expenses	164,672	372,014	207,342
Claims payable	274,019	0	(274,019)
Advance premium contributions	0	1,848,272	1,848,272
Total liabilities	$ 3,712,988	$4,983,849	$1,270,861
Reserve fund balance	$(1,346,252)	$(2,065,902)	$ (719,650)
Total liabilities and reserve fund balance	$ 2,366,736	$2,917,947	$ 551,211

The Fund experienced a negative Reserve Fund Balance in the amount of $(2,065,902) at December31, 2011.

The examiner recommends that the Health Plan review their expenses to determine what budget revisions may be required to alleviate the deficit they experienced at December 31, 2011.

B. STATEMENT OF CHANGES IN RESERVE FUND BALANCE

	2007	2008	2009	2010	2011
Additions to fund balance:					
Employer contributions	$19,841,357	$20,287,185	$21,135,997	$21,298,023	$24,618,567
Employee contributions	1,917,452	1,841,402	1,782,883	1,900,716	1,998,496
Investment income	85,061	81,753	29,288	15,768	25,514
Other additions	343,135	0	180,821	524,392	611,091
Total additions	$22,187,005	$22,210,340	$23,128,989	$23,738,899	$27,253,668
Deductions from fund balance:					
Insurance and annuity premiums paid to carriers and service organizations	$ 191,528	$ 215,756	$ 198,424	$ 230,472	$ 269,957
Benefits paid directly by the Health Plan	18,786,123	18,783,971	22,607,923	24,508,019	27,234,597
Administrative expenses	1,208,165	1,222,941	1,142,574	1,217,707	1,420,394
Total deductions	$20,185,816	$20,222,668	$23,948,921	$25,956,198	$28,924,948
Net increase (decrease) in fund balance	$ 2,001,189	$ 1,987,672	$ (819,932)	$ (2,217,299)	$ (1,671,280)

C. RECONCILIATION OF RESERVE FUND BALANCE

		2008	2009	2010	2011
Reserve fund balance, December 31, previous year	$ (1,346,252)	$ 654,937	$ 2,642,609	$ 1,822,677	$ (394,622)
Total additions during year	$22,187,005	$22,210,340	$23,128,989	$23,738,899	$27,253,668
Total deductions during year	20,185,816	20,222,668	23,948,921	25,956,198	28,924,948
Change in fund balance	$ 2,001,189	$ 1,987,672	$ (819,932)	$(2,217,299)	$(1,671,280)
Reserve fund balance, December 31, current year	$ 654,937	$ 2,642,609	$ 1,822,677	$ (394,622)	$(2,065,902)

2007

5. ADMINISTRATIVE EXPENSES

The following table shows a breakdown of the administrative expenses for the fiscal year ending December 31, 2011:

Administrative Expenses	
Fees and commissions	$1,404,036
Insurance premiums	8,471
Fidelity bond premium	2,634
Stationary, printing and office supplies	5,253
Total administrative expenses	$1,420,394

The following schedule shows the number of members, contributions, administrative expenses, the ratio of administrative expenses to contributions, and the administrative cost per member for the period under review:

	2007	2008	2009	2010	2011
Number of members	1,827	1,841	1,850	1,845	1,969
Contributions	$21,758,809	$22,128,587	$22,918,880	$23,198,739	$26,617,063
Administrative expenses	$1,208,165	$1,222,941	$1,142,574	$1,217,707	$1,420,394
Ratio of administrative expenses to contributions	5.55%	5.53%	4.99%	5.25%	5.34%
Administrative cost per member	$661.28	$664.28	$617.61	$660.00	$721.38

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Health Plan's market conduct activities affecting claimants to determine compliance with applicable statutes and regulations and the operating rules of the Health Plan.

Section 4405 (b) of the New York Insurance Law states, in part:

> "Any examiner authorized by the superintendent shall have convenient access at all reasonable hours to the books, records, files, assets, securities, and other documents of such fund, including those of any affiliated or subsidiary fund thereof, which are relevant to the examination . . ."

The Health Plan's s third party administrator, UnitedHealthCare, did not provide the sample of health claim files or claim procedures requested by the examiner.

The Health Plan violated Section 4405(b) of the New York Insurance Law by failing to provide convenient access to the Health Plan's health claim files and claim procedures.

The examiner reviewed a sample of self-insured prescription drug claims to determine whether the members were treated fairly and in accordance with plan benefits.

Based upon the sample reviewed, no significant findings were noted.

7. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

Item	Description	Page No(s).
A	The Health Plan violated Section 201.1(a)(4) of Department Regulation No. 38 by failing to give the Department written notice of changes to the board of trustees within 10 days after the changes had occurred.	6
B	The Health Plan violated Section 201.1(a)(2)(i) of Department Regulation No. 38 by failing to give the Department written notice within 10 days after amending plan benefits.	8
C	The examiner recommends that the Health Plan review their expenses to determine what budget revisions may be required to alleviate the deficit they experienced at December 31, 2011	9
D	The Health Plan violated Section 4405(b) of the New York Insurance Law by failing to provide convenient access to the Health Plan's health claim files and claim procedures.	13

Respectfully submitted,

/s/
Sharon Reynolds
Senior Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

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

/s/
Sharon Reynolds

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 30808

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

SHARON REYNOLDS

as a proper person to examine the affairs of the

EAST END HEALTH PLAN

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

WELFARE FUND

with such other information as he shall deem requisite.

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

this 16th day of October, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By: _____

MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU