

REPORT ON EXAMINATION
OF
PAYCHEX INSURANCE CONCEPTS, INC.
AS OF
DECEMBER 31, 2009

DATE OF REPORT

OCTOBER 25, 2011

EXAMINER

BERNARD LOTT

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 25, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30607 dated October 6, 2010, attached hereto, I have made an examination into the condition and affairs of Paychex Insurance Concepts, Inc. as of December 31, 2009, and respectfully submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to refer to Paychex Insurance Concepts, Inc.

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

The examination was conducted at the offices of Marsh Management Services Inc., the captive manager for Paychex Insurance Concepts, Inc., located at 48 South Service Road, Melville, NY 11747.

1. SCOPE OF EXAMINATION

The examination covers the five-year, one hundred sixty-six day period from the Company's licensing and commencement of business on July 19, 2004, through December 31, 2009 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and 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 New York Insurance Department, and was in compliance with Article 70 of the New York Insurance 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 New York Insurance Law.

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

2. DESCRIPTION OF COMPANY

The Company, incorporated on June 30, 2004, is a wholly-owned subsidiary of Paychex, Inc. The Company commenced doing business as a pure captive insurance company under the laws of New York State on July 19, 2004.

A. Articles of Incorporation

The Company was organized to transact the kinds of property and casualty insurance business specified in paragraphs 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 19, 20, 21, 22, 24, 26, 27, 28, 29 and 30 of Subsection (a) of Section 1113 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 New York Insurance Law.

The Company provides Paychex Business Solutions, Inc. with worker's compensation deductible reimbursement insurance.

B. By-Laws

It appears that the Company, in all material respects, is in compliance with its by-laws.

C. Capital Structure

Pursuant to Section 7004(a)(1) of the New York Insurance Law, a pure captive insurance company incorporated as a stock insurer is required to possess, and thereafter maintain, unimpaired paid-in-capital and surplus of not less than \$250,000, in order to be issued a license to do captive insurance business in New York State. Capital paid in is \$100,000, consisting of 100,000 shares of \$1 par value per share common stock. The Company was initially capitalized with contributed cash of \$3,980,000 from Paychex, Inc.

The Company maintained the \$3,980,000 capital contribution for the entire period covered by this examination.

D. Corporate Records

Corporate records reviewed that are not specifically addressed elsewhere in this report appeared to be substantially accurate and complete in all material respects.

E. Reinsurance

The Company does not assume or cede any business.

F. Management and Control

(i) Captive Manager

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

The Company is managed by Marsh Management Services Inc., the captive management arm of Marsh, Inc., an insurance broker licensed by the Department. The manager's duties, pursuant to a "management agreement," include monitoring Company compliance with New York Insurance Laws and filing requirements, acting as the Company's principal representative in communications

with regulatory authorities, operating bank accounts in the name of the Company and maintaining the true and complete books of account and records of all business conducted under the agreement.

(ii) Board of Directors

The Company exercises its corporate powers through a board of directors consisting of not less than three members nor more than ten. All directors are elected annually by the Company's sole shareholder (Paychex Inc.).

At December 31, 2009, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Craig Hill Treasure Island, FL	Regional Manager, Paychex Inc.
Kevin Hill Pittsford, NY	Vice President, Paychex Inc.
John Morphy Fairport, NY	Chief Financial Officer, Paychex Inc.

The Company's by-laws state that the board of directors shall hold at least one meeting in the State of New York every calendar year. During the period covered by this examination, the board met five times and had a number of actions undertaken by "Unanimous Written Consent." A review of the meeting minutes indicated that they were generally well attended and that each member had an acceptable record of attendance for all board meetings for which they were eligible to attend.

(iii) Officers

The board of directors shall elect or appoint such officers as it decides are necessary for the conduct of business. The Company's by-laws state that the officers of the Company's shall be a president, a secretary, and a treasurer, and such other officers as the board of directors may in its discretion elect. Any two or more offices may be held by the same person except the offices of president and secretary.

The following were officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
John Morphy	President/ Treasurer
Craig Hill	Vice President/Secretary

G. Certified Public Accountant and Actuarial Services

The Company was audited by the independent CPA firm Ernst & Young, LLP, for the years covered by this examination. The Company's opining actuary from inception to December 31, 2009, was from Oliver Wyman Actuarial Consulting, Inc.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2004	\$12,016,667	\$ 249,813	\$24,691,410	\$ 4,229,813
2005	\$20,717,664	\$1,482,429	\$38,762,879	\$ 5,712,242
2006	\$20,396,689	\$5,453,053	\$48,031,424	\$11,165,295
2007	\$19,822,762	\$4,928,978	\$46,809,864	\$ 9,094,273
2008	\$17,869,392	\$3,137,709	\$45,941,168	\$12,231,982
2009	\$16,435,778	\$2,391,220	\$47,981,818	\$14,623,202

The Company's shareholders equity as of the examination date includes accumulated surplus of \$10,643,202.

3. FINANCIAL STATEMENTS

The examination accepted the financial position of the Company, as presented below. Ernst & Young, LLP concluded that the financial statements presented fairly, in all material respects, the financial position of the Company as of December 31, 2009:

A. Balance Sheet

BALANCE SHEET AS OF DECEMBER 31, 2009

Assets

Cash	\$ 250,133
Short-term investments	37,178,747
Investment income due and accrued	3,019
Accounts and premiums receivable	6,772,075
Deferred tax asset	1,806,252
Deferred premium tax	27,088
Loss escrow account	1,790,645
Other account receivable	<u>153,859</u>
Total assets	<u>\$47,981,818</u>

Liabilities, Capital and SurplusLiabilities

Losses		\$21,234,064
Loss adjustment expenses		4,044,583
Commissions, expenses and fees		6,689
Taxes payable		1,266,557
Unearned premium		6,772,075
Amounts due to affiliates		<u>34,648</u>
Total liabilities		\$33,358,616

Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Contributed surplus	3,880,000	
Surplus (accumulated earnings)	<u>10,643,202</u>	
Total capital and surplus		<u>14,623,202</u>
Total liabilities, capital and surplus		<u>\$47,981,818</u>

B. Statement of Income

Capital and surplus increased \$10,643,202 during the five-year one hundred and sixty-six day period subsequent to the Company's initial capitalization on July 19, 2004 through December 31, 2009, detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$107,258,952
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Deductions:

Net losses incurred	\$69,396,602	
Net loss adjustments expenses incurred	13,696,106	
General and administrative	2,307,613	
Other underwriting expenses	<u>430,930</u>	

Total underwriting deductions		<u>85,831,251</u>
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Net underwriting gain		\$21,427,701
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Investment Income

Net investment income earned	<u>\$4,535,303</u>	
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Net investment gain		<u>4,535,303</u>
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Net income before taxes		\$25,963,004
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Taxes		<u>8,319,802</u>
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Net income		<u>\$17,643,202</u>
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C. Capital and Surplus Account

Capital and surplus as of July 19, 2004			\$3,980,000
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$17,643,202	\$ 0	
Dividends	<u>0</u>	<u>(7,000,000)</u>	
Total gains and losses	\$17,643,202	\$(7,000,000)	
Net increase in surplus			<u>10,643,202</u>
Capital and surplus per report on examination as of December 31, 2009			<u>\$14,623,202</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2009, The Company reported \$21,234,064 and \$4,044,583 for unpaid losses and loss adjustment expenses, respectively. The Company provides worker's compensation deductible reimbursement coverage at varying per occurrence limits for policy periods during the period covered by this examination. Reserves for worker's compensation claims are not discounted.

For each year covered by this examination the opining actuary stated that the carried reserves met the requirements of the New York Insurance Law, had been evaluated in accordance with accepted loss reserving standards and principles and made reasonable provisions for all unpaid losses and loss adjustment expense obligations. Based on the opining actuary's opinion and the audit performed by the independent CPA firm, no examination change will be made to the Company's reported reserve for losses and loss adjustment expenses.

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. ORGANIZATIONAL STRUCTURE

Paychex, Inc. is a publicly traded payroll and human resource service company, which serves over a half million businesses nationwide. Paychex, Inc. is headquartered in Penfield, New York and has more than 100 locations across the country. Paychex, Inc. provides services including Payroll Services, Time and Labor Management, HR Administration & Compliance, 401(k) Employee Benefits, Group Health Insurance, and Paychex HR Solutions.

7. INSURANCE PROGRAM

The Company's "Workers Compensation Deductible Reimbursement Policy" provides Paychex Business Solutions, Inc. and all associated companies, corporations and other legal entities currently existing and subsequently formed, with coverage that reimburses the deductible amount for which the insured is liable under Workers Compensation policies from non-affiliated commercial carriers.

Respectfully submitted,

_____/s/_____
Bernard Lott
Senior Insurance Examiner

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

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

_____/s/_____
Bernard Lott

Subscribed and sworn to before me

this _____ day of _____, 2011.

Appointment No. 30607

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Bernard Lott

as proper person to examine into the affairs of the

PAYCHEX INSURANCE CONCEPTS, INC.

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

Corporation

with such other 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 6th day of October, 2010



James J. Wrynn

JAMES J. WRYNN
Superintendent of Insurance