

REPORT ON EXAMINATION

OF

PXC INC.

AS OF

DECEMBER 31, 2017

DATE OF REPORT

AUGUST 30, 2019

EXAMINER

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

February 16, 2022

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31942 dated April 22, 2019, attached hereto, I have made an examination into the condition and affairs of PXC Inc. as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate PXC Inc.

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

The examination was conducted at the office of the Company’s manager located at 48 South Service Road Melville, NY 11747.

1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2013 through December 31, 2017 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis. Transactions occurring subsequent to this period were review 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 New York State Department of Financial Services, and was 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

PXC Inc. was incorporated under the laws of New York State as a captive insurance company on December 31, 2003 and commenced business on January 1, 2004. The Company is a wholly owned subsidiary of Paychex, Inc. (“Parent”). Paychex, Inc. provides payroll, human resources, and benefits services for small to medium size businesses. PXC Inc. provides various types of insurance coverages to the Parent and certain subsidiaries. On May 31, 2018, Paychex Holdings, LLC became PXC's parent company.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) 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, 2017, the Company's paid-in capital was \$450,000, consisting of 100 shares of common stock with a par value of \$5 per share and an additional paid-in capital of \$449,500. The Company's retained earnings was \$15,997,000 for a total capital and surplus (surplus as regards policyholders) of \$16,448,000 (**Rounded amounts are reflected in the balance sheet on page 6 of this report**).

D. Corporate Records

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

E. Operations

Paychex, Inc. obtained primary insurance policies covering various risks through third-party insurance carriers. During the period covered by the examination, PXC Inc. provided additional coverage to its parent, via a First Party and Third Party All Risk Coverage Policy. The policy insured various deductibles, self-insured retentions and provided additional coverage above the limits of the policies insured by the third-party carriers. The policy is subject to an annual aggregate of \$25,000,000 or 95% of the PXC Inc's. capital and surplus as reflected in the latest filed annual statement.

Additionally, the Company provided gap coverage for the Parent and its affiliated companies in circumstances where no coverage was otherwise available. The Company currently provides gap coverage for employment practices liability, warranty liability and acts of terrorism.

On May 1, 2017, the Company entered into a facultative reinsurance agreement with Zurich American Insurance Company ("Zurich") providing reinsurance services related to the business operations of Paychex, Inc., and its affiliated companies. Zurich assumed 40% of each individual ERISA ("Employee Retirement Income Securities Act") bond limit issued by the Company. Companies offering 401k plans to their employees are required to have ERISA coverage, which protects employees if fraud occurs with the management of their retirement funds.

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 this State unless it utilizes a captive manager resident in this State that is licensed as an agent or broker under the provisions of the Article 21 of the Law, or any other person approved by the Superintendent.

As of December 31, 2017, the Company was managed by Blue Bear Risk Management, Inc. (“Blue Bear”) which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, Blue Bear had the responsibility for providing the Company with policyholder, 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 of all business conducted under this agreement.

Subsequent to September 15, 2018, the Company was managed by Marsh Management Services, Inc.

(ii) Board of Directors

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members. The board meets one time during each calendar year. At December 31, 2017, the board of directors was comprised of the following three members:

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

As of December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Efrain Rivera	President & Treasurer
Stephanie Schaeffer	Secretary

G. Certified Public Accountant

PricewaterhouseCoopers LLP (“PWC”) was the Company’s independent public accounting firm during the period covered by the examination. At December 31, 2017, PWC stated that in its opinion, the Company’s statutory-basis financial statements present fairly, in all material respects, the financial position of PXC Inc.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as of December 31, 2017, as determined by this examination and as reported by the Company:

Assets

	<u>EXAMINATION</u>		<u>COMPANY</u>		Surplus Increase (Decrease)
	<u>Assets</u>	Not Admitted <u>Assets</u>	Admitted <u>Assets</u>	Admitted <u>Assets</u>	
Bonds	\$11,243,000	\$0	\$11,243,000	\$11,243,000	\$0
Cash	599,000		599,000	599,000	
Savings and certificate of deposit	7,724,000		7,724,000	7,724,000	
Investment income due and accrued	176,000		176,000	176,000	
Accounts and premium receivable	38,000		38,000	38,000	
Investments in and advances to affiliates	20,230,000	20,230,000		20,230,000	(20,230,000)
Deferred tax asset	<u>469,000</u>		<u>469,000</u>	<u>469,000</u>	
Total assets	<u>\$40,479,000</u>	<u>\$20,230,000</u>	<u>\$20,249,000</u>	<u>\$40,479,000</u>	<u>\$(20,230,000)</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Unpaid losses and loss adjustment expenses	\$2,575,000	\$2,575,000	\$0
Commissions, expenses and fees	37,000	37,000	
Taxes payable	313,000	313,000	
Unearned premium	384,000	384,000	
Amounts due to affiliates	<u>492,000</u>		<u>(492,000)</u>
Total liabilities	<u>\$3,801,000</u>	<u>\$3,309,000</u>	<u>\$(492,000)</u>

Capital and Surplus

Common stock	\$1,000	\$1,000	\$0
Additional paid-in capital	450,000	450,000	
Retained earnings	<u>15,997,000</u>	<u>36,719,000</u>	<u>(20,722,000)</u>
Total capital and surplus	<u>\$16,448,000</u>	<u>\$37,170,000</u>	<u>\$(20,722,000)</u>
Total liabilities, capital and surplus	<u>\$20,249,000</u>	<u>\$40,479,000</u>	

B. Statement of Income

The Company's net income for the five-year period covered by the examination was \$2,564,964,000, as detailed below:

Underwriting Income

Net premiums earned		\$39,882,000
Total revenue		<u>\$39,882,000</u>
Deductions:		
Losses and loss adjustment expenses incurred	\$24,306,000	
Management fee	1,804,000	
Ceding commissions	238,000	
General and administrative expenses	<u>1,273,000</u>	
Total underwriting deductions		<u>27,621,000</u>
Net underwriting income		\$12,261,000
<u>Investment Income</u>		
Investment income		1,170,000
Distribution from affiliated partnership		<u>2,555,523,000</u>
Total income before taxes		2,568,954,000
Income taxes		3,990,000
Net income		<u>\$2,564,964,000</u>

4. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The Company reported an asset of \$20,230,000 in its filed annual statement as of December 31, 2017. The examination not-admitted this asset due to the findings in PWC's 2017 audit. The asset consisted of \$20,722,000 in erroneous tax receivables from subsidiaries, netted against a \$492,000 intercompany payable amount.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2017, the Company reported total reserves for unpaid losses and loss adjustment expenses of \$2,575,000. The Company's opining actuarial firm, Willis Towers Watson, stated in its Statement of Actuarial Opinion that the reserves met the requirements of the captive insurance laws of New York and were consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles regarding Property and Casualty unpaid claims estimates and relevant standards of practices promulgated by the Actuarial Standard Board. It also noted that the reserves made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

6. AMOUNTS DUE TO AFFILIATES

The examination reinstated the \$492,000 liability based PWC's findings in its 2017 audit, noted in Item 4 of this report.

7. 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.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation. (The page number refers to the prior report):

ITEM		PAGE NO.
A.	It is recommended that the Company take greater care in the preparation of its financial statements.	5
	Subsequent to the period covered by this examination the Company complied with this recommendation.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report.

Respectfully submitted,

_____/S/_____
Wei Cao (DFS)

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 _____, 2022

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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

PXC 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 22nd day of April, 2019

LINDA A. LACEWELL
Acting Superintendent of Financial Services



By:

Joan M. Riddell

Joan Riddell
Deputy Bureau Chief