



**REPORT ON EXAMINATION  
OF  
PAYCHEX INSURANCE CONCEPTS, INC.**

**AS OF DECEMBER 31, 2019**

**EXAMINER:  
DATE OF REPORT:**

**WEI CAO  
FEBRUARY 26, 2021**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

April 4, 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 32153 dated October 21, 2020, attached hereto, I have made an examination into the condition and affairs of Paychex Insurance Concepts, Inc. as of December 31, 2019, and submit the following report thereon.

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

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

Due to the COVID-19 pandemic, the examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2015, through December 31, 2019, 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 reviewed 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

Paychex Insurance Concepts, Inc. is a wholly owned subsidiary of Paychex, Inc., a leading provider of integrated human capital management solutions for payroll, human resources, retirement, and insurance services with over a hundred office locations across the nation.

The Company was incorporated under the laws of New York State as a captive insurance company on June 30, 2004 and commenced business on July 19, 2004. The Company provides workers’ compensation deductible reimbursement coverage to Paychex Business Solutions, Inc. and all associated companies. Paychex Business Solutions, Inc. is a subsidiary of Paychex, Inc.

### A. Article 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, 2019, the Company's paid-in capital was \$100,000, consisting of 100,000 shares of common stock with a par value of \$1 per share and an additional paid-in capital amount of \$3,880,000. The Company had retained earnings of \$10,015,000 for a total capital and surplus (surplus as regards policyholders) of \$13,995,000.

D. Corporate Records

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

E. Operations

As of December 31, 2019, the Company provided workers' compensation reimbursement coverage to Paychex Business Solutions, Inc. and all associates a limit of \$1,000,000 per occurrence with no aggregate limit.

During the period covered by the examination, the Company did not assume nor cede any business.

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 Article 21 of the Law, or any other person approved by the Superintendent.

During the period covered by this examination, the Company was managed by Marsh Management Services Inc. (“Marsh”), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a management agreement, effective July 8, 2013, Marsh has the responsibility for providing the Company with underwriting, administrative, 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 the preparation of the annual financial report required by the Department.

The agreement was amended on September 1, 2015, to reflect an updated service fee.

(ii) Board of Directors

Pursuant to the Company’s by-laws, the business and affairs of the Company shall be managed under the direction of the board of directors. The number of directors shall not be less than three members, two of whom shall be residents of New York State. On December 31, 2019, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lynn Belecki Fairport, NY	Manager of Business Development, Paychex Inc.
Efrain Rivera Rochester, NY	Senior Vice President, Chief Financial Officer & Treasurer Paychex Inc.
Robert Schrader Victor, NY	Vice President and Controller, Paychex Inc.

During the period covered by the examination, the board of directors met once each year. A review of its meeting minutes indicated that all the meetings were well attended.

(iii) Officers

As of December 31, 2019, the principal officers of the Company were as follows:

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

G. Certified Public Accountant

PricewaterhouseCoopers LLP (“PWC”) was the Company’s independent certified public accounting firm for the period covered by the examination. PWC stated that the Company’s financial statements presented fairly, in all material respects, the financial position of Paychex Insurance Concepts, Inc. as of December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

##### Assets

Cash	\$294,000	
Short term investment pool	67,963,000	
Premium receivable	14,259,000	
Deferred acquisition cost	51,000	
Deferred income taxes	1,895,000	
Prepaid expenses	<u>167,000</u>	
Total assets		<u>\$84,629,000</u>

##### Liabilities

Reserve for losses and loss adjustment expenses	\$51,562,000	
Payable to Parent	47,000	
Unearned premiums	14,259,000	
Losses payable	573,000	
Accrued Income tax	4,113,000	
Other liabilities	<u>80,000</u>	
Total liabilities		<u>\$70,634,000</u>

##### Capital and Surplus

Common stock	\$100,000	
Additional paid-in capital	3,880,000	
Retained earnings	<u>10,015,000</u>	
Total capital and surplus		<u>\$13,995,000</u>
Total liabilities, capital, and surplus		<u>\$84,629,000</u>

B. Statement of Income

The Company's net income for the period covered by the examination was \$9,693,000 as detailed below:

Underwriting Income

Premiums earned		\$139,376,000
Deductions:		
Losses and loss adjustment expenses	\$125,099,000	
General and administrative	539,000	
Amortization of deferred policy acquisition costs	540,000	
Management fee to the Parent	3,173,000	
Change in premium deficiency reserve	<u>(453,000)</u>	
Total operating deductions		<u>128,898,000</u>
Total underwriting income		\$10,478,000
		<u>2,978,000</u>
Total investment income		
Total income before taxes		13,456,000
Income tax expenses		<u>3,763,000</u>
Net income		<u>\$9,693,000</u>

C. Capital and Surplus Account

The Company's capital and surplus increased \$5,693,000 during the period covered by this examination, detailed as follows:

Capital and surplus as of January 1, 2015			\$8,302,000
	Increase in <u>surplus</u>	Decrease in <u>surplus</u>	
Net income	\$9,693,000	\$0	
Dividends	<u>                    </u>	<u>4,000,000</u>	
Total increases and decreases	<u>\$9,693,000</u>	<u>\$4,000,000</u>	
Net increase in surplus			<u>5,693,000</u>
Capital and surplus as of December 31, 2019			<u>\$13,995,000</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2019, the Company reported total losses and loss adjustment expense reserves of \$51,562,000. The Company's opining actuarial firm, Oliver Wyman, noted in its Statement of Actuarial Opinion that, in its opinion, the reported statutory reserves have been evaluated in accordance with accepted loss reserving standards and principles, and the requirements of the insurance laws of the state of New York. It was also noted that a reasonable provision for all unpaid losses and loss adjustment expense obligations of the Company had been made under the terms of its policies and agreements.

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. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examiner’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

## **7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations in this report.

Respectfully submitted,

\_\_\_\_\_/S/  
Wei Cao  
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, 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*

*Paychex Insurance Concepts, 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 1st day of December, 2020*

*LINDA A. LACEWELL  
Superintendent of Financial Services*

*By:*

*Joan Riddell*

*Joan Riddell  
Deputy Bureau Chief*

