FINANCIAL SERVICES COMMISSION

FLORIDA OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

PINNACLECHOICE, INC.

AS OF

December 1, 2006

FLORIDA COMPANY CODE: 56039

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PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Florida Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 636.206, Florida Statutes, a market conduct examination of PinnacleChoice, Inc. (PCI or Company) was performed by Huff Thomas and Company. The scope of this examination was December 15, 2005 through August 31, 2006. The onsite examination began on November 27, 2006 and ended on December 1, 2006.

The purpose of this examination was to review the Company's compliance with Chapter 636, Part II, Florida Statutes as effective on April 1, 2005. Chapter 636, Part II, Florida Statutes, regulates discount medical plan organizations, entities that, in exchange for fees, dues, charges, or other consideration, provide access for plan members to providers of medical services and the right to receive medical services from those providers at a discount.

The Company's records were examined at its offices located at 632 Pompton Avenue, Cedar Grove, NJ 07009.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners.

DESCRIPTION OF COMPANY

This foreign Company was licensed as a Discount Medical Plan Organization (DMPO) in Florida on December 15, 2005. PCI was established in December 1999.

The Company offers a variety of options in its two medical discount plans called "Full Plan" and "Six Pack". PCI's discount medical plans offer health care services, dental, vision, hearing, chiropractic, complimentary alternative medicine, nursing advisory services, and pharmacy discounts to members.

Chapter 636, Part II, Florida Statutes does not regulate pharmaceutical supplies and prescriptions services.

PROVIDER NETWORK AGREEMENT REVIEW

The Company has written agreements with the following 7 external provider networks for its discount medical plan:

- Advanced PCS Health, L.P. – managed pharmacy;

- MGR Consulting Services, Ltd., d/b/a The Health Connection – Complimentary Alternative Medicine (CAM);
- HearPO Corp – hearing;
- The Amacore Group, Inc. d/b/a Eye Care International, and AccessOne Consumer Health, Inc. – vision;
- American Health Network, Inc. d/b/a Galaxy Health Network – Medical Cost Management Services;
- Connecticut General Life Insurance Company – dental; and
- First American Health Concepts, Inc. d/b/a Eye Care Plan of America – vision.

A review of the 7 provider network agreements was conducted. The following violations were noted:

- 7 agreements did not contain a list of services and products to be provided at a discount; and the amount or amounts of the discounts or, alternatively, a fee schedule which reflects the provider's discounted rates as required by Section 636.214(3)(a), Florida Statutes; and
- 4 agreements did not require the network to provide an up-to-date list of its contracted providers and to provide that list on a monthly basis to the discount medical plan organization as required by Section 636.214(3)(c), Florida Statutes.

Corrective Action: The Company should revise its network provider agreements to include a list of services and products to be provided at a discount; and the amount or amounts of the discounts or, alternatively, a fee schedule which reflects the provider's discounted rates. The Company should also review its network provider agreements to include a provision requiring the network to provide an up-to-date list of its contracted providers and to provide that list on a monthly basis.

The Company reports that all provider lists on the PinnacleChoice website are updated and maintained by each individual network provider. All listings of providers participating in the PinnacleChoice, Inc. plans are the most up-to-date provider listings available as the Company's website is directly linked to the network provider listings. This ensures all updates and revisions made by its network providers are immediately available for members. Only its network providers update these provider listings.

PROVIDER AGREEMENT REVIEW

The Company does not contract directly with providers.

MARKETER AGREEMENT REVIEW

The Company has agreements with 8 private label marketers to sell its discount medical plan to Florida residents. Eight (8) written agreements were reviewed for compliance with Section 636.228(2), Florida Statutes. No violations were noted.

The Company advised that, beginning in the first quarter of 2006, it discontinued utilizing the services of the 8 private label marketers to sell its discount medical plan to Florida residents. The Company considered the marketing techniques of the private label marketers to be improper and believed plan members were not properly informed of the facts about the discount medical plan they were purchasing.

MEMBERSHIP REVIEW

As of November 27, 2006, the Company had 45 active memberships, 37 of which had enrollment effective dates on or after December 15, 2005.

Enrollment and Fulfillment Procedures

Presently, new members enroll in the discount medical plan using forms that have not been filed with and approved by the Office. Upon acceptance of a new member's enrollment, the Company sends each new member a fulfillment package. The package is sent to the member's home address and contains a copy of the member agreement, plan detail, available services, and discount cards.

Enrollment Effective Date

The enrollment effective date for discount plan members is the date their payment is received by the Company; which also was observed to be the same as the member's application date.

Memberships on or after December 15, 2005

The 37 active membership files with effective dates on or after December 15, 2005 were reviewed. PCI provided the examiner with copies of each file that contain payment histories, application data, and member services log notes for each of the plan members reviewed. The following violation was noted:

- 37 files did not contain evidence that the forms used to enroll members had been filed with and approved by the Office as required by Section 636.216(3), Florida Statutes.

Corrective Action: The Company should ensure all forms used to enroll members have been filed with and approved by the Office.

Memberships prior to December 15, 2005

Between the April 1, 2005 effective date of Chapter 636, Florida Statutes, and December 15, 2005, the date PCI was permitted to operate as a licensed DMPO, it enrolled 7 members. Enrolling members in a discount medical plan without a license violates Section 636.204(1), Florida Statutes.

Corrective Action: Members enrolled prior to December 15, 2005 should be provided Florida approved enrollment forms and written agreements upon renewal.

This issue was addressed in Consent Order 84027-05-CO executed on December 15, 2005.

FORMS/CHARGES REVIEW

A review of the enrollment forms, membership agreement, various schedules of benefits, and charges was conducted. The following violations were noted:

- The Company utilized forms and charges for members enrolled between April 1, 2005 and January 30, 2005, that had not been filed with and approved by the Office as required by Sections 636.216(1) and (3), Florida Statutes;
- The Company utilized a membership agreement that omitted the "entire agreement" provision as required by Rule 69O-203.202(1)(k)(2), Florida Administrative Code; and
- The Company utilized a membership agreement that omitted the member's name and the effective date as required by Rule 69O-203.202(1)(c) and (d), Florida Administrative Code.

Corrective Action: The Company should only use forms and charges that have been filed with and approved by the Office; and forms that contain the required elements.

CANCELLATION REVIEW

During the scope period, the Company reported that 89 members cancelled their membership within the first 30 days after the effective date of their enrollment. A random sample of 50 members that cancelled their memberships within the first 30 days after the effective date of their enrollment was reviewed. The following violations were noted:

- 7 members did not receive a refund of all periodic charges as required by Section 636.208(2), Florida Statutes; and
- 12 members did not receive a refund for any portion of the one-time processing fee that exceeds $30 per year as required by Section 636.208(4), Florida Statutes.

Corrective Action: The Company should ensure that all members who cancel their memberships receive a refund of charges when applicable.

Subsequent to the exam, the Company reimbursed the periodic charges and one-time processing fees to those members referenced above.

COMPLAINT/GRIEVANCE REVIEW

During the scope period, the Company recorded 2 consumer complaints related to its discount dental plan. The Company provided a written record sufficiently documenting all complaints. A review of the 2 complaints was completed. No violations were noted.

The Company has policies and procedures in place, which facilitate the resolution of member grievances and complaints as required by Section 636.205(1)(d), Florida Statutes.

WEBSITE REVIEW

The Company's website http://www.pinnaclechoice.com/ was reviewed for compliance with Section 636.226, Florida Statutes. No violations were noted.

The website contained various informative links to educate the active and potential plan members along with links to provider listings which connect directly to PCI's network providers. The website was mainly an informational site and was a user-friendly system.

ADVERTISING REVIEW

During the scope period, the Company used 4 advertisements. Three (3) advertisements are in printed form and are comprised of either the fulfillment package (including brochures, discount cards, member agreement's and letters) or two plan overview brochures that each contained a summary of the discount medical plan. The fourth advertisement is the Company website, the review of which was addressed in the above section titled, Website Review.

The Company provided complete copies of all printed materials and website documents it noted as advertisements and used in the soliciting of its products. A review of the advertising materials was conducted. The following violations were noted:

- 2 plan overview brochures did not disclose that the plan does not make payments directly to the providers of medical services as required by Section 636.212 (3), Florida Statutes;
- 1 plan overview brochure did not disclose that plan members are obligated to pay for all health care services but will receive a discount as required by Section 636.212(4), Florida Statutes; and
- 2 plan overview brochures did not provide the name and address of the licensed DMPO as required by Section 636.212(5), Florida Statutes.

Corrective Action: The Company should ensure that all advertising contains the required disclosures.

EXAMINATION FINAL REPORT

The Office hereby issues this report as the Final Report, based upon information from the examiner's draft report, additional research conducted by the Office, and additional information and comments provided by the Company in response to the draft report.