

**Report on Examination**  
**of**  
**Independent Colleges and Universities**  
**Benefits Association, Inc.**

**Orlando, Florida**

**as of**

**March 31, 2013**



**FLORIDA OFFICE OF**  
**INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.44, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Independent Colleges and Universities Benefits Association, Inc. as of March 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
June 19, 2014

## Contents

Scope of Examination .....	1
Summary of Significant Findings .....	2
Association History.....	3
Corporate Records.....	3
Management and Control .....	3
Fidelity Bonds and Other Insurance.....	4
Pension and Insurance Plans .....	4
Territory and Plan of Operation.....	5
Association Growth .....	5
Reinsurance .....	6
Accounts and Records.....	6
Surplus Notes.....	7
Statutory Deposits.....	7
Financial Statements.....	8
Comments on Financial Statements .....	12
Recommendations .....	14
Conclusion .....	16

## SCOPE OF EXAMINATION

We have completed a financial condition examination of Independent Colleges and Universities Benefits Association, Inc. (the "Association"), a Florida multiple-employer welfare arrangement. Our examination covered the period of April 1, 2010 through March 31, 2013 and took place primarily in the Association's Orlando, Florida office. The last financial condition examination of the Association by the Florida Office of Insurance Regulation (the "Office") was as of March 31, 2010.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Association. It required that we do so by obtaining information about the Association including corporate governance, identifying and assessing inherent risks within the Association, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in findings that the Association violated certain provisions of its consent order, failed to file with the Office a copy of its amended and restated bylaws as required, and incorrectly reported certain of its assets and one of its liabilities. In addition, we found that there was no record that the Association's investments were approved by its board of directors or an authorized board committee. The findings are discussed in more detail in the pages that follow. Recommendations begin on page 14.

## **ASSOCIATION HISTORY**

The Association was incorporated in Florida on November 4, 2002 and licensed by the Office as a multiple-employer welfare arrangement on March 14, 2003. It was authorized by the State of Florida to operate as a multiple-employer welfare arrangement in accordance with Section 624.437, Florida Statutes (F.S.).

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Association's board of directors and audit and finance committee. We found that there was no record that the Association's investments were approved by the Board or an authorized board committee as required by Section 625.304, F.S.

## **MANAGEMENT AND CONTROL**

The Association was organized under Chapter 617, F.S., as a not for profit corporation. Any non-profit, non-governmental entity engaged in education in the State of Florida was eligible for consideration as a member of the Association. Each Association member was entitled to one vote per participant except that no one member's percentage of total votes could exceed 35%. The Association's senior officers, directors and members of principal board committees were:

### **Senior Officers**

<b>Name</b>	<b>Title</b>
D. Bruce Edwards	Chairperson
Robert J. Pietrykowski	Vice Chairperson
Mark S. Weinstein	Chief Executive Officer
Mona L. Hicks	Secretary
Claire P. Wurmfeld	Treasurer

**Board of Directors**

<b>Director</b>	<b>Member</b>	<b>Location</b>
Kimberly A. Baggett	Beacon College	Leesburg, Florida
M. Chris Coletta	Saint Paul's School	Clearwater, Florida
D. Bruce Edwards	Barry University	Miami Shores, Florida
Nancy N. Greene	The Bolles School	Jacksonville, Florida
Mona L. Hicks	Palm Beach Atlantic University	West Palm Beach, Florida
Maria J. Martinez	Rollins College	Winter Park, Florida
Robert J. Pietrykowski	Nova Southeastern University	Fort Lauderdale, Florida
Donna B. Popovich	The University of Tampa	Tampa, Florida
Valerie A. Williams	Florida Memorial University	Miami Gardens, Florida
Claire P. Wurmfeld	Florida Institute of Technology	Melbourne, Florida
M. Beth Zamerski	Saint Edward's School	Vero Beach, Florida

**Committees of the Board**

<b>Executive</b>	<b>Audit and Finance</b>	<b>Appeals</b>
D. Bruce Edwards	M. Chris Coletta	Kimberly A. Baggett
Mona L. Hicks	D. Bruce Edwards	D. Bruce Edwards
Robert J. Pietrykowski	Robert J. Pietrykowski	Nancy N. Greene
Claire P. Wurmfeld	Claire P. Wurmfeld	Mona L. Hicks
	M. Beth Zamerski	Maria J. Martinez

**FIDELITY BONDS AND OTHER INSURANCE**

The Association maintained fidelity bond coverage of \$500,000 with a single loss deductible of \$5,000, which was in compliance with Section 624.439(5), F.S.

**PENSION AND INSURANCE PLANS**

The Association provided various benefits to eligible Association employees. The benefits included flexible spending and health reimbursement accounts, tuition reimbursements, a 401(k) retirement plan, paid time off, and health, dental, life, and disability insurance.

## TERRITORY AND PLAN OF OPERATION

The Association provided health benefits to its members which consisted of 23 private education employers in Florida. It also provided administrative services and arranged for fully-insured products for its members. Administrative services included enrollment and billing, flexible benefit health reimbursement account and claim administration, customer service and call center services. Fully-insured products included dental, optical, life and disability insurance.

## ASSOCIATION GROWTH

The Association reported the following for years ended March 31:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Member months	150,956	159,957	169,206
Members at year-end	12,968	13,459	14,329
<i>(In millions)</i>			
Premiums	\$ 56.9	\$ 64.6	\$ 70.1
Revenues	\$ 57.6	\$ 65.3	\$ 70.7
Underwriting deductions	\$ 55.6	\$ 62.0	\$ 66.0
Net income	\$ 2.0	\$ 3.3	\$ 4.8
Admitted assets	\$ 18.6	\$ 23.2	\$ 27.7
Liabilities	\$ 14.4	\$ 15.7	\$ 15.4
Fund balance	\$ 4.2	\$ 7.5	\$ 12.3

## **REINSURANCE**

The Association maintained excess of loss indemnity reinsurance with Florida Blue. The reinsurance policy covered 100% of the Association's eligible expenses in excess of \$150,000 per year per covered person subject to a self-funded liability of \$750,000. Because the Association was required by paragraph 5.a. of Consent Order 66421-03-CO (the Consent Order) to retain no more than \$150,000 for any one risk, it was in violation of the Consent Order.

## **ACCOUNTS AND RECORDS**

The Association amended and restated its bylaws as of June 29, 2012. However, it failed to file with the Office a copy of the amended and restated bylaws in accordance with Section 624.439(3), F.S.

We also found that the Association failed to file with the Office for approval certain administrative and management agreements prior to their execution and/or consummation or amendment as required by paragraph 11 of the Consent Order.

## SURPLUS NOTES

The Association was obligated for \$8,201,695 in 5% surplus notes to the following members:

Member	Amount
Clearwater Christian College	\$ 84,735
Edward Waters College	78,179
Florida Institute of Technology	625,353
Nova Southeastern University	5,197,767
Palm Beach Atlantic University	266,296
Rollins College	721,958
Saint Leo University	528,883
Southeastern University	15,198
University of Tampa	683,326
	<hr/>
	\$ 8,201,695
	<hr/> <hr/>

The notes were approved by the Office in accordance with Rule 69O-192.018, Florida Administrative Code, and the Association's board of directors. In accordance with Section 624.4361(2), F.S., the debt was included in the Association's fund balance.

## STATUTORY DEPOSITS

The Association maintained on deposit with the Office an insolvency protection deposit of \$1 million in accordance with Section 624.441(1), F.S.

**Independent Colleges and Universities Benefits Association, Inc.**  
**Admitted Assets, Liabilities, and Fund Balance**  
**March 31, 2013**

<b>Admitted Assets</b>	<b>As Filed</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 5,750,000	\$ (1,515,578)	\$ 4,234,422
Cash, cash equivalents and short-term investments	20,447,221	1,506,716	21,953,937
	26,197,221	(8,862)	26,188,359
Investment income due and accrued	-	8,862	8,862
Uncollected premiums and agents' balances	783,721	-	783,721
Health care and other amounts receivable	689,039	(524,039)	165,000
<b>Total admitted assets</b>	<b>\$ 27,669,981</b>	<b>\$ (524,039)</b>	<b>\$ 27,145,942</b>

<b>Liabilities</b>			
Claims unpaid	\$ 4,910,959	\$ 210,815	\$ 5,121,774
Unpaid claims adjustment expenses	40,000	-	40,000
Amounts withheld or retained for the account of others	10,458,965	-	10,458,965
<b>Total liabilities</b>	<b>15,409,924</b>	<b>210,815</b>	<b>15,620,739</b>

<b>Fund Balance</b>			
Surplus notes	8,201,695	-	8,201,695
Unassigned funds	4,058,362	(734,854)	3,323,508
<b>Total fund balance</b>	<b>12,260,057</b>	<b>(734,854)</b>	<b>11,525,203</b>
<b>Total liabilities and fund balance</b>	<b>\$ 27,669,981</b>	<b>\$ (524,039)</b>	<b>\$ 27,145,942</b>

**Independent Colleges and Universities Benefits Association, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Association)**  
**Year Ended March 31, 2013**

Net premium income	\$ 70,053,386
Aggregate write-ins for other non-health revenues	685,615
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Total revenues	<hr/> 70,739,001
Hospital and medical benefits	50,233,685
Prescription drugs	15,868,199
Aggregate write-ins for other hospital and medical	187,019
	<hr/> 66,288,903
Net reinsurance recoveries	5,525,130
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Total hospital and medical	60,763,773
Claims adjustment expenses	2,542,554
General administrative expenses	2,733,603
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Total underwriting deductions	66,039,930
Net underwriting gain	4,699,071
Net investment gains	59,450
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Net income	<hr/> <hr/> \$ 4,758,521

**Independent Colleges and Universities Benefits Association, Inc.**  
**Statement of Changes in Fund Balance**  
**Three Years Ended March 31, 2013**

Fund balance - March 31, 2010	\$ 2,043,157
Net income	2,018,201
Change in nonadmitted assets	90,326
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Fund balance - March 31, 2011	4,151,684
Net income	3,349,851
Change in nonadmitted assets	(28,416)
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Fund balance - March 31, 2012	7,473,119
Net income	4,758,521
Change in nonadmitted assets	28,417
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	12,260,057
Examination adjustments	(734,854)
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Fund balance - March 31, 2013	<u>\$ 11,525,203</u>

**Independent Colleges and Universities Benefits Association, Inc.**  
**Comparative Analysis of Changes in Fund Balance**  
**March 31, 2013**

The following is a reconciliation of the fund balance between that reported by the Association and as determined by the examination.

<b>Fund balance, March 31, 2013 - per annual statement</b>			\$ 12,260,057
	<u>As Filed</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Fund Balance</u>
Assets:			
Bonds	\$ 5,750,000	\$ 4,234,422	\$ (1,515,578)
Cash, cash equivalents and short-term investments	20,447,221	21,953,937	1,506,716
Investment income due and accrued	-	8,862	8,862
Health care and other amounts receivable	689,039	165,000	(524,039)
Liabilities:			
Claims unpaid	4,910,959	5,121,774	<u>(210,815)</u>
Net change in fund balance			<u>(734,854)</u>
<b>Fund balance, March 31, 2013 - per examination</b>			<u><u>\$ 11,525,203</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Pharmacy Rebate Receivable

The amount reported by the Association in its 2012 annual statement (as of March 31, 2013) as 'health care and other amounts receivable' included a pharmacy rebate receivable of \$165,000. Upon examination, we found that the receivable was not invoiced or confirmed in writing within two months of its reporting date as required by Statement of Statutory Accounting Principles (SSAP) No. 84. As a result, the receivable has been nonadmitted and the amount reported as 'health care and other amounts receivable' has been reduced by \$165,000.

### Subrogation Receivables

The amount reported by the Association in its 2012 annual statement as 'health care and other amounts receivable' included \$359,039 in subrogation receivables. The amount should have been reported as a reduction in the Association's liability for unpaid claims or losses in accordance with SSAP No. 55. As a result, the amounts reported as 'health care and other amounts receivable' and 'claims unpaid' have been reduced by \$359,039.

### Asset Reclassifications

The amounts reported by the Association in its 2012 annual statement as bonds and 'cash, cash equivalents and short-term investments' were incorrectly stated. Upon examination, the assets were reclassified. The amount reported as bonds has been reduced by \$1,515,578, the amount reported as 'cash, cash equivalents and short-term investments' has been increased by \$1,506,716, and 'investment income due and accrued' has been increased by \$8,862 in accordance with SSAP Nos. 2, 26 and 34.

### Claims Unpaid

We determined that the amount reported by the Association in its 2012 annual statement as 'claims unpaid' was understated by \$569,854. As a result, the liability has been increased to \$5,121,774.

## RECOMMENDATIONS

### Approval of Investments

As reported on page 3, we found that there was no record that the Association's investments were approved by the Board of Directors or an authorized board committee. **We recommend that the Association's board of directors, or a committee, department or section of the Association with the duty of supervising investments, authorize or ratify the Association's investments as required by Section 625.304, F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

### Compliance With Consent Order

As reported on page 6, we found that the Association maintained reinsurance subject to a self-funded liability of \$750,000, in violation of the Consent Order. In addition, we found that the Association failed to file with the Office certain agreements for approval, which was also in violation of the Consent Order. **We recommend that the Association amend its reinsurance policy to comply with paragraph 5.a. of the Consent Order, and file with the Office for approval all administrative services contracts, management contracts, and contracts between the Association and affiliated or related entities as required by paragraph 11 of the Consent Order.**

### Amended Bylaws

As reported on page 6, we found that the Association failed to file with the Office a copy of its amended and restated bylaws. **We recommend that the Association file with the Office copies of all amended and restated bylaws in accordance with Section 624.439(3), F.S.**

#### Pharmacy Rebate Receivable

As reported on page 12, we found that the Association claimed as an admitted asset a pharmacy rebate receivable which had not been invoiced or confirmed in writing within two months of its reporting date. **We recommend that the Association comply with SSAP No. 84 with respect to its reporting of pharmacy rebate receivables.**

#### Subrogation Receivable

As reported on page 12, the Association reported subrogation receivables as 'health care and other amounts receivable'. **We recommend that the Association report subrogation receivables as reductions in its liability for unpaid claims or losses in accordance with SSAP No. 55.**

#### Asset Reclassifications

As reported on page 12, the Association incorrectly classified its bonds, cash, cash equivalents and short-term investments, and investment income due and accrued. **We recommend that, in future statements filed with the Office, the Association report those assets in accordance with SSAP Nos. 2, 26 and 34, as applicable.**

#### Claims Unpaid

As reported on page 13, the Association understated the amount of its claims unpaid in its 2012 annual statement. **We recommend that, in future statements filed with the Office, the Association report its claims unpaid in accordance with Section 625.041(1), F.S.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Independent Colleges and Universities Benefits Association, Inc. consistent with the insurance laws of the State of Florida.

At March 31, 2013, the Association's fund balance was \$11,525,203 and the Association was in compliance with the minimum fund balance requirement of Section 624.4392, F.S.

In addition to the undersigned, the following individuals participated in the examination: Kerry Krantz, Actuary; Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst Supervisor; and Scott R. Slaughter, CPA, Financial Examiner/Analyst.

Respectfully submitted,

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Faisal Harianawalla  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation