

Report on Examination
of
Solstice Benefits, Inc.
Plantation, Florida
as of
December 31, 2013



**FLORIDA OFFICE OF
INSURANCE REGULATION**

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

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Solstice Benefits, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
January 26, 2015

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SCOPE OF EXAMINATION

We have completed a financial condition examination of Solstice Benefits, Inc. (the "Company"), a single-state insurer domiciled in Florida. The examination covered the one-year period ending December 31, 2013 and took place primarily in the Company's Plantation, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2012.

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 Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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 Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in a finding that there was no record of the authorization or ratification of the Company's investments. In addition, examiners found there was no record that the appointed actuary reported on the items within the scope of the actuarial opinion or that the actuarial opinion and memorandum were made available to the Board. The examination also resulted in findings that the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.16:1; the Company did not conduct an onsite review of the operations of one of its third party administrators nor did it conduct semiannual reviews of the operations of another of its third party administrators; and the Company understated its claims unpaid by \$245,000 and incorrectly reported \$94,358 in premiums received in advance as aggregate health policy reserves. Recommendations relating to significant findings of the examination are contained on page 16.

COMPANY HISTORY

The Company was incorporated in Florida on November 17, 2004. Its articles of incorporation were amended on January 6, 2011, August 11, 2011 and December 29, 2011. The Company received a permit to form a Florida domestic insurer on November 16, 2011 and was licensed by the Office as an insurer on April 27, 2012. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.), and by the State of Georgia as a third party administrator. Prior to receiving its Florida life and health insurer certificate of authority, the Company was licensed in Florida as a prepaid limited health service organization, discount medical plan organization, and third party administrator.

Dividends and Capital Contributions

In 2013, the Company issued \$825,000 of preferred stock. The Company did not distribute dividends to its shareholders during the period examined.

CORPORATE RECORDS

We reviewed the minutes of meetings held by the Company's shareholder, board of directors and audit committee. The Board's approval of Company transactions was recorded in the minutes of its meeting except that there was no record of the authorization or ratification of investments as required by Section 625.304, F.S. In addition, there was no record that the appointed actuary reported on the items within the scope of the actuarial opinion or that the actuarial opinion and memorandum were made available to the Board in accordance with the NAIC annual statement instructions.

MANAGEMENT AND CONTROL

The Company was owned by Michael D. Flax, D.D.S., and affiliated with various other entities including Claims Management Systems, Inc., Solstice Insurance Administration, Inc., Solstice Healthplans of New Jersey, Inc., and Solstice Healthplans, Inc. The Company was also affiliated with Solstice Health Insurance Company (SHIC), a New York insurer owned by Leonard A. Weiss, D.M.D. The Company and SHIC were under common control and management and Dr. Weiss owned shares of the Company's preferred stock.

The Company's senior officers, directors, and members of principal board committees were:

Senior Officers

Name	Title
Michael D. Flax, D.D.S.	President & Treasurer
Carlos Ferrera	Chief Financial Officer, Chief Operating Officer & Secretary

Board of Directors

Name	Location
Carlos Ferrera	Coral Springs, Florida
Michael D. Flax, D.D.S.	Boca Raton, Florida
Stuart M. Meyerson	Matthews, North Carolina
Audie M. Rolnick, M.D.	Weston, Florida
Audrey F. Ruden	New York, New York

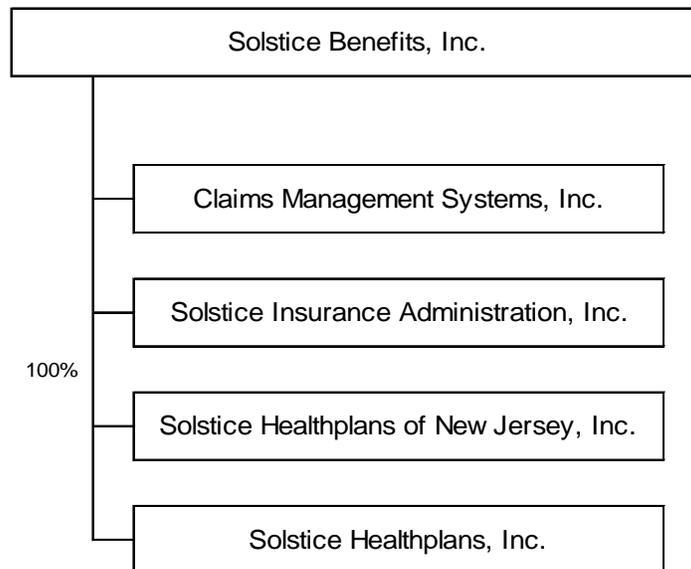
Audit Committee

Stuart M. Meyerson
Audie M. Rolnick, M.D.
Audrey F. Ruden

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code, on March 1, 2014 and later amended on April 25, 2014.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Solstice Benefits, Inc.
Abbreviated Organizational Chart
December 31, 2013**



Tax Allocation Agreement

The Company filed a consolidated federal income tax return which included the operations of its subsidiaries pursuant to a tax allocation agreement dated April 23, 2013 and later amended.

The agreement provided for the allocation of income tax liability in accordance with the ratio which that portion of the consolidated taxable income attributable to each member having taxable income bears to the consolidated taxable income. It also provided that each member shall pay amounts to the parent on the applicable due date that said amount would have been paid had the member not been included in the consolidated return, or as soon after that date as

possible. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exists on the subsidiary's books.

Personnel Leasing Agreement

The Company provided employee leasing services to SHIC pursuant to a January 1, 2010 agreement. Pursuant to the agreement, the Company shall lease personnel to SHIC, as required, to perform the following services: enrollment of individuals and employer groups; installation of individuals and new groups into a billing and claims system; billing and collection of premiums from individuals and employer groups; claims investigation, processing and adjudication; and member service. Services were provided to SHIC in exchange for monthly fees based on the hours worked by the leased personnel by function, which amounted to \$166,759 in 2013.

Consulting Agreements

Leonard A. Weiss, D.M.D., provided consulting services to the Company pursuant to a consulting agreement effective January 1, 2010. Under the agreement, fees for the services were payable at the rate of \$20,000 per month. In addition, the agreement provided for reimbursement to Dr. Weiss of ordinary and necessary expenses incurred by him in connection with the services. The agreement was effective until terminated by either party. The fee under the agreement amounted to \$240,000 in 2013.

Trade Consultants, Inc. provided advisory services to the Company pursuant to a consulting agreement. The agreement was effective February 1, 2012 and remains in effect until terminated by either party. The services were related to strategic development, capital formation and development, business analysis, sales and marketing, corporate and transactional structuring, and issue resolution matters. Under the agreement, fees were

payable to Trade Consultants, Inc. at the rate of \$15,000 per month. The fee under the agreement amounted to \$180,000 in 2013.

Marilyn Raphael provided marketing and business development services to the Company pursuant to a consulting agreement. The agreement was effective January 1, 2010 and remains in effect until terminated by either party. Under the agreement, fees were payable to Ms. Raphael at the rate of \$14,500 per month. The agreement was amended to increase the monthly fees to \$18,056 effective January 1, 2012. The fee under the agreement amounted to \$216,672 in 2013.

Feinstein & Sorota, P.A. provided legal advisory services to the Company pursuant to a consulting agreement. The agreement was effective January 1, 2012 and remains in effect until terminated by either party. Under the agreement, fees were payable to Feinstein & Sorota, P.A. at the rate of \$8,333 per month. The fee under the agreement amounted to \$153,000 in 2013.

Michael D. Flax, D.D.S., per a consulting agreement, is to be the president of the Company at the discretion of the Board and shall perform all duties and services for the Company commensurate with the position. The fee under the agreement amounted to \$400,000 in 2013. The arrangement was not in writing or submitted to the Office for review and prior written approval as required by the Consent Order 121519-11-CO issued by the Office on November 16, 2011. Subsequent to the period examined, the Company and Michael D. Flax, D.D.S., entered into a written agreement for the services and submitted the agreement to the Office. Under the written agreement, fees are payable to Dr. Flax at the rate of \$30,000 per month. The agreement remains in effect until terminated by either party.

Administrative Services Agreements

The Company provided administrative, sales, marketing, network development and management, group administration, claims, customer service, information technology, finance, and accounting services to Solstice Administrators, Inc. and Solstice of New York, Inc. pursuant to agreements effective January 1, 2011. The agreements were initially effective for terms of three years and automatically renewed for one-year periods thereafter. Under the agreements, fees for provided services were based on hourly rates and were payable monthly and amounted to \$14,318 and \$46,568 in 2012 and 2013, respectively.

Under an agreement effective March 26, 2006, the Company provided benefits, administrative, and claims services to Solstice Benefit Services, Inc. (formerly, Starmark Benefit Services, Inc.), while Solstice Benefit Services, Inc. provided enrollment and promotion services to the Company. The payments to Solstice Benefits Services, Inc. under the agreement amounted to \$80,591 in 2013. The payments to the Company under the agreement amounted to \$10,522 in 2013.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$1,000,000 with a deductible of \$10,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$200,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided various benefits to eligible employees. Benefits included group medical, life, short-term and long-term disability, vision and dental insurance; paid time off; employee assistance; and participation in a Section 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact accident and health insurance in Florida. It marketed individual and group dental and vision products.

COMPANY GROWTH

The Company reported the following for years 2012 and 2013:

(Dollars are in millions.)

	<u>2012</u>	<u>2013</u>
Member months	6,177,645	7,289,030
Year-end enrollment	521,387	633,524
Premiums	\$ 9.8	\$ 13.1
Revenues	\$ 21.0	\$ 25.7
Underwriting deductions	\$ 19.8	\$ 26.7
Net income (loss)	\$ 0.8	\$ (1.4)
Shareholder dividends	\$ -	\$ -
Paid in capital received	\$ 1.7	\$ 0.0
Paid in surplus received	\$ 1.0	\$ 0.8
Admitted assets	\$ 5.8	\$ 5.4
Liabilities	\$ 1.7	\$ 2.9
Capital and surplus	\$ 4.1	\$ 2.5

ACCOUNTS AND RECORDS

Section 624.4095(1), F.S., provides, in part, that whenever an insurer's ratio of adjusted annual net written premiums to surplus exceeds 4:1, the Office shall suspend the insurer's certificate of authority or establish maximum net annual premiums to be written consistent with maintaining the 4:1 ratio unless the insurer demonstrates to the satisfaction of the Office that exceeding the ratio does not endanger the financial condition of the insurer or the interests of the insurer's policyholders. At December 31, 2013, the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.16:1. The report on our examination of the Company as of December 31, 2012 reported as a subsequent event that, as of June 30, 2013, the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.1:1.

The Company did not conduct an onsite review of the operations of one of its third party administrators, nor did it conduct semiannual reviews of the operations of another of its third party administrators as required by Section 626.8817(3), F.S.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office a cash deposit of \$103,566 in accordance with Section 624.411, F.S.

Solstice Benefits, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2013

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Common stocks	\$ 345,544	\$ -	\$ 345,544
Cash, cash equivalents and short-term investments	3,061,244	-	3,061,244
	3,406,788	-	3,406,788
Uncollected premiums and agents' balances	680,215	-	680,215
Current federal and foreign income tax recoverable	434,444	-	434,444
Net deferred tax asset	111,435	-	111,435
Receivables from parent, subsidiaries and affiliates	300	-	300
Health care and other amounts receivable	26,814	-	26,814
Aggregate write-ins for other-than-invested assets	763,700	-	763,700
Total admitted assets	\$ 5,423,696	\$ -	\$ 5,423,696
Liabilities			
Claims unpaid	\$ 1,550,000	\$ 245,000	\$ 1,795,000
Unpaid claims adjustment expenses	77,029	-	77,029
Aggregate health policy reserves	94,358	(94,358)	-
Premiums received in advance	-	94,358	94,358
General expenses due or accrued	463,469	-	463,469
Amounts withheld or retained for the account of others	16,129	-	16,129
Remittances and items not allocated	551,414	-	551,414
Borrowed money	68,915	-	68,915
Amounts due to parent, subsidiaries and affiliates	6,710	-	6,710
Liability for amounts held under uninsured plans	79,624	-	79,624
Aggregate write-ins for other liabilities	1,960	-	1,960
Total liabilities	2,909,608	245,000	3,154,608
Capital and Surplus			
Common capital stock	5,000	-	5,000
Preferred capital stock	4,146	-	4,146
Gross paid in and contributed surplus	5,580,127	-	5,580,127
Unassigned funds (deficit)	(3,075,185)	(245,000)	(3,320,185)
Total capital and surplus	2,514,088	(245,000)	2,269,088
Total liabilities, capital and surplus	\$ 5,423,696	\$ -	\$ 5,423,696

Solstice Benefits, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2013

Net premium income	\$ 13,082,224
Change in unearned premium reserves	(42,514)
Risk revenue	7,742,193
Aggregate write-ins for other health care related revenues	4,963,598
Total revenues	25,745,501
<hr/>	
Hospital and medical benefits	12,917,576
Claims adjustment expenses	4,170,873
General administrative expenses	9,644,811
Total underwriting deductions	26,733,260
Net underwriting gain (loss)	(987,759)
Net investment gains	10,955
Net gain (loss) from agents' or premium balances charged off	(93,461)
Aggregate write-ins for other income or expenses	(702,726)
Income (loss) before federal income tax	(1,772,991)
Federal income tax (benefit)	(368,044)
Net income (loss)	\$ (1,404,947)

Solstice Benefits, Inc.
Statement of Changes in Capital and Surplus
Year Ended December 31, 2013

Capital and surplus - December 31, 2012	\$ 4,110,988
Net income or (loss)	(1,404,947)
Change in net unrealized capital gains or losses	1,914
Change in net deferred income tax	992,217
Change in nonadmitted assets	(2,011,084)
Paid in capital	825
Paid in surplus	824,175
	<hr/> 2,514,088
Examination adjustments	(245,000)
Capital and surplus - December 31, 2013	<hr/> <hr/> \$ 2,269,088

Solstice Benefits, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2013 - as reported				\$ 2,514,088
	<u>As</u>	<u>Per</u>	<u>Increase</u>	
	<u>Reported</u>	<u>Examination</u>	<u>(Decrease)</u>	
			<u>In Capital</u>	
			<u>& Surplus</u>	
Claims unpaid	\$ 1,550,000	\$ 1,795,000	\$ (245,000)	
Aggregate health policy reserves	\$ 94,358	\$ -	\$ 94,358	
Premiums received in advance	\$ -	\$ 94,358	\$ (94,358)	
Net change in capital and surplus				(245,000)
Capital and surplus, December 31, 2013 - per examination				<u>\$ 2,269,088</u>

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid

The amount reported by the Company as claims unpaid has been increased by \$245,000. The Company's actuary rendered an opinion that the amounts carried on the Company's balance sheet as of December 31, 2013 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. Upon examination, the Office determined that the liability was understated by \$245,000.

Premiums Received in Advance

The Company incorrectly reported \$94,358 in premiums received in advance as aggregate health policy reserves. Upon examination, the amount was reclassified.

RECOMMENDATIONS

As reported on page 3, there was no record of the authorization or ratification of investments. **We recommend that the Company's board of directors, or a committee, department or section of the insurer with the duty of supervising investments, authorize or ratify the Company'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.**

As reported on page 3, there was no record that the appointed actuary reported on the items within the scope of the actuarial opinion or that the actuarial opinion and memorandum were made available to the Board in accordance with the NAIC annual statement instructions. **We recommend that the appointed actuary report to the Board in accordance with the NAIC annual statement instructions, and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

As reported on page 10, the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.16:1. **We recommend that the Company maintain a ratio of adjusted annual net written premiums to surplus of 4.0:1 or less, in accordance with Section 624.4095(1), F.S., at all times.**

As reported on page 10, the Company did not conduct an onsite review of the operations of one of its third party administrators, nor did it conduct semiannual reviews of the operations of another of its third party administrators as required by Section 626.8817(3), F.S. **We recommend that the Company comply with Section 626.8817(3), F.S.**

In its 2013 annual statement, the Company understated its claims unpaid by \$245,000 and incorrectly reported \$94,358 in premiums received in advance as aggregate health policy reserves, as reported on page 15. **We recommend that, in future statements filed with the**

Office, the Company accurately report its liabilities in accordance with Part I of Chapter 625, F.S.

CONCLUSION

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

At December 31, 2013, the Company's capital and surplus was \$2,269,088 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination:

Christine N. Afolabi, CPA, Financial Specialist; Rebecca Davis, MBA, CFE (Fraud), PIR, Financial Examiner/Analyst; Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst; Kerry Krantz, Actuary.

Respectfully submitted,

Cathy S. Jones, CPA, CFE
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation