Report on Examination

of

Solstice Benefits, Inc.

Plantation, Florida

as of

December 31, 2012

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, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
September 12, 2013

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of Solstice Benefits, Inc. (the "Company"), a single-state insurer domiciled in Florida. The examination covered the period of April 27, 2012 through December 31, 2012 and took place primarily in the Company's Plantation, Florida office. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

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 findings that the Company's officers and directors were not elected in 2012, its actuary was not appointed before year-end, and the Company's audit committee did not meet nor interact during the period examined with the Company's auditor regarding audit findings. In addition, the examination resulted in findings that the Company failed to: submit certain agreements to the Office for review and prior written approval as required by a consent order, enter into a written custody agreement with its independent investment custodian, and correctly report the NAIC designations of its bond investments. The examination resulted in additional findings that the Company failed to properly classify and report certain of its assets in its annual statement, and that it overstated the amount of its assets and capital and surplus at December 31, 2012 by $213,390. The examination also resulted in a finding that the Company's ratio of adjusted annual net written premiums to surplus exceeded the ratio allowed by Section 624.4095(1), Florida Statutes (F.S.). Recommendations related to significant findings of the examination are located beginning on page 18 of this report.

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, 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 2012, the Company issued $2.7 million of preferred stock. It did not distribute dividends to its shareholder during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Company's board of directors meetings held during the period examined. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

The Company was required by Section 624.424(8), F.S., to file with the Office by June 1, 2013 its 2012 financial statements audited by a certified public accountant hired by its board of directors. On May 10, 2013, the Company and its independent auditor entered into a written agreement arranging for the audit of the Company's 2012 financial statements. The resulting audit report was dated May 28, 2013. In addition:

- The Company's directors were not elected at an annual shareholder meeting in 2012 as required by the Company's bylaws and Section 628.231(2), F.S.;
- The Company's officers were not elected in 2012 as required by the Company's bylaws;
- The Company's audit committee did not meet nor interact during the period examined with the Company's auditor regarding audit findings as required by Section 624.424(8)(c), F.S.; and
- The Company's actuary was not appointed before year-end as required by 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., and Solstice Healthplans of New Jersey, 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 and directors 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

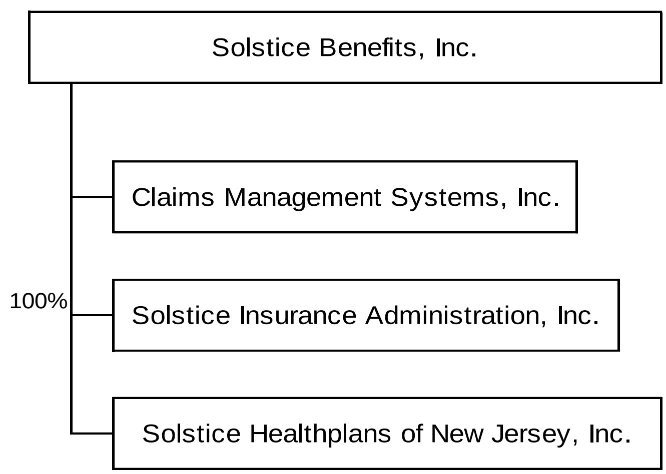
Audit Committee

Carlos Ferrera
Michael D. Flax, D.D.S.
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 (F.A.C.), on April 1, 2013.

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

Solstice Benefits, Inc.
Abbreviated Organizational Chart
December 31, 2012



Personnel Leasing Agreement

Pursuant to an agreement effective January 1, 2010, the Company provided enrollment, billing, claims, collection and other services to SHIC. Under the agreement, charges for provided services were based on hourly rates and were payable monthly. The agreement was initially effective for a term of three years and, thereafter, was renewable for one-year periods.

Dental Consulting Agreement

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.

Administrative Services Agreements

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 Company provided administrative, sales, marketing, network development and management, group administration, claims, customer service, information technology, finance, and accounting services to Solstice Administrators, Inc., Solstice of Illinois, Inc., Solstice of New York, Inc., and Personal Health Benefits Association, Inc. pursuant to agreements effective January 1, 2011. Under the agreements, fees for provided services were based on hourly rates and were payable monthly. The agreements were initially effective for terms of three years and automatically renewed for one-year periods thereafter.

Other Consulting Agreements

Trade Consultants, Inc. provided advisory services to the Company pursuant to a consulting agreement. The Company and Trade Consultants, Inc. were related parties. 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.

Marilyn Raphael provided marketing and business development services to the Company pursuant to a consulting agreement. The Company and Marilyn Raphael were related parties. 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 above-described consulting agreements were not submitted to the Office for review and prior written approval as required by Consent Order 121519-11-CO (the “Consent Order”) issued by the Office on November 16, 2011.

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 $150,000.

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.

ACCOUNTS AND RECORDS

During the period examined, the Company's bond investments were held for it by an independent custodian; however, the Company and the custodian had not entered into a written custody agreement as required by Rule 69O-143.042, F.A.C. The Company liquidated its bond portfolio in January of 2013.

In its 2012 annual statement, the Company incorrectly reported that its bond investments were designated by the NAIC as category 1 and category 2 bonds, rather than as category 1FE and category 2FE bonds.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office a cash deposit of $102,334 in accordance with Section 624.411, F.S.

Solstice Benefits, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	$1,703,107	$ 249,000	$1,952,107
Common stocks	116,279	(16,591)	99,688
Cash, cash equivalents and short-term investments	3,490,746	(324,767)	3,165,979
	5,310,132	(92,358)	5,217,774
Investment income due and accrued	30,809	-	30,809
Uncollected premiums and agents' balances	337,028	-	337,028
Receivables from parent, subsidiaries and affiliates	26,281	24,040	50,321
Aggregate write-ins for other than invested assets	145,072	(145,072)	-
Total admitted assets	$5,849,322	$ (213,390)	$5,635,932

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	$ 775,976	$ -	$ 775,976
Unpaid claims adjustment expenses	70,948	-	70,948
Premiums received in advance	62,876	-	62,876
General expenses due or accrued	154,595	-	154,595
Current federal and foreign income tax payable	370,765	-	370,765
Amounts withheld or retained for the account of others	5,971	-	5,971
Amounts due to parent, subsidiaries and affiliates	2,669	-	2,669
Liability for amounts held under uninsured plans	150,318	-	150,318
Aggregate write-ins for other liabilities	144,216	-	144,216
Total liabilities	1,738,334	-	1,738,334
Capital and Surplus			
Common stock	5,000	-	5,000
Preferred stock	3,321	-	3,321
Gross paid in and contributed surplus	4,755,952	-	4,755,952
Unassigned funds (deficit)	(653,285)	(213,390)	(866,675)
Total capital and surplus	4,110,988	(213,390)	3,897,598
Total liabilities, capital and surplus	$5,849,322	$ (213,390)	$5,635,932

Solstice Benefits, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	$ 9,752,895
Risk revenue	6,439,746
Aggregate write-ins for other health care related revenues	4,771,418
Total revenues	20,964,059
Hospital and medical benefits	7,551,045
Claims adjustment expenses	3,856,471
General administrative expenses	8,420,162
Total underwriting deductions	19,827,678
Net underwriting gain	1,136,381
Net investment gains	46,896
Income before federal income tax	1,183,277
Federal income tax	396,774
Net income	$ 786,503

Solstice Benefits, Inc.
Statement of Changes in Capital and Surplus
Year Ended December 31, 2012

Capital and surplus - December 31, 2011	$ 687,158
Net income	786,503
Change in net unrealized capital gains and losses	(17,721)
Change in net deferred income tax	45,882
Change in nonadmitted assets	172,166
Cumulative effect of changes in accounting principles	(275,000)
Paid in capital	1,732,586
Paid in surplus	979,414
	4,110,988
Examination adjustments	(213,390)
Capital and surplus - December 31, 2012	$ 3,897,598

Solstice Benefits, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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

	Per Company	Per Examination	Increase (Decrease) In Capital & Surplus	
Capital and surplus, December 31, 2012 - per annual statement				$4,110,988
Bonds	$1,703,107	$1,952,107	$ 249,000	
Common stocks	$ 116,279	$ 99,688	$ (16,591)	
Cash, cash equivalents and short-term investments	$3,490,746	$3,165,979	$ (324,767)	
Receivables from parent, subsidiaries and affiliates	$ 26,281	$ 50,321	$ 24,040	
Aggregate write-ins for other than invested assets	$ 145,072	$ -	$ (145,072)	
Net change in capital and surplus				(213,390)
Capital and surplus, December 31, 2012 - per examination				$3,897,598

COMMENTS ON FINANCIAL STATEMENTS

Bonds

The $1,703,107 reported by the Company in its 2012 annual statement as 'bonds' has been increased by $249,000 to $1,952,107. The Company incorrectly reported a certificate of deposit with a maturity date in excess of one year as a short-term investment rather than as a bond as required by Statement of Statutory Accounting Principles (SSAP) No. 26.

Common Stocks

The $116,279 reported by the Company in its 2012 annual statement as 'common stocks' has been reduced by $16,591 to $99,688. The Company's investments in its non-insurance subsidiaries Claims Management Systems, Inc. and Solstice Insurance Administration, Inc. were reported in the annual statement as admitted assets and included in common stocks at $16,591. It was the Company's policy to account for the investments under the equity method based on the audited equity of the subsidiaries in accordance with SSAP No. 97. However, the Company was unable to support the reported amount of the investments with audited financial statements. As a result, the asset was non-admitted upon examination.

Cash, Cash Equivalents and Short-Term Investments

The $3,490,746 reported by the Company in its 2012 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by $324,767 to $3,165,979. The amount reported by the Company incorrectly included $75,089 on deposit in an account of an affiliate and a certificate of deposit which should have been reported as a bond in the amount of $249,678. Upon examination, the certificate of deposit was reclassified to bonds pursuant to SSAP No. 26 in the amount of its adjusted carrying value of $249,000, and the cash deposit was non-admitted.

Certificates of Deposit

In its 2012 annual statement, the Company incorrectly reported its $245,444 GE Capital certificate of deposit and its $245,430 Puerto Rico certificate of deposit as short-term investments rather than as cash as required by SSAP No. 2.

Receivables from Parent, Subsidiaries and Affiliates

The $26,281 reported by the Company in its 2012 annual statement as 'receivables from parent, subsidiaries and affiliates' has been increased by $24,040 to $50,321. The Company reported receivables from various subsidiaries in the total amount $16,397 consisting of loans that were not pursuant to written agreements as required by SSAP No. 25. As a result, they were non-admitted upon examination. In addition, the Company reported a receivable of $1,324 from Solstice of Illinois, Inc., an affiliate which does not generate revenue and receives cash infusions from the Company. Upon examination, the loan was determined to be uncollectible and non-admitted. Included in the amount reported by the Company in its annual statement as 'aggregate write-ins for other than invested assets' was a receivable from an affiliate SHIC in the amount of $41,761. Upon examination, the receivable was reclassified to 'receivables from parent, subsidiaries and affiliates' in accordance with the NAIC annual statement instructions.

Aggregate Write-Ins for Other Than Invested Assets

The $145,072 reported by the Company in its 2012 annual statement as 'aggregate write-ins for other than invested assets' has been decreased to $0. Included in the amount reported by the Company was a receivable from an affiliate National Brokerage Services, Inc. in the amount of $103,311. The Company was unable to demonstrate that the reported receivable was collectible or resulted from one or more transactions supported by a written agreement. As a result, the reported receivable was non-admitted upon examination. As previously reported, a receivable from SHIC in the amount of $41,761 was reclassified to ‘receivables from parent, subsidiaries and affiliates’.

SUMMARY OF RECOMMENDATIONS

Independent Auditor

As reported on page 4, the Company did not enter into a written agreement with its independent auditor arranging for the audit of the Company’s 2012 financial statements until May 10, 2013, and the resulting audit report was dated May 28, 2013. **We recommend that the Company enter into a written agreement with its independent auditor prior to the end of the year being audited and before the audit begins.**

Election of Directors

As reported on page 4, the Company's directors were not elected at an annual shareholder meeting in 2012. **We recommend that the Company's directors be elected annually at an annual shareholder meeting as required by the Company’s bylaws and Section 628.231(2), F.S.**

Election of Officers

As reported on page 4, the Company’s officers were not elected in 2012. **We recommend that the Company’s officers be elected annually as required by the Company’s bylaws.**

Audit Committee

As reported on page 4, the Company’s audit committee did not meet nor interact during the period examined with the Company’s auditor regarding audit findings. **We recommend that the Company’s audit committee conduct meetings and that it interact with the Company’s auditors regarding audit findings as required by Section 624.424(8)(c), F.S.**

Appointment of Actuary

As reported on page 4, the Company's actuary was not appointed before year-end. **We recommend that the Company's board of directors annually appoint the Company's actuary before year-end as required by the NAIC annual statement instructions.**

Violation of Consent Order

As reported on pages 8 and 21, the Company failed to submit certain agreements to the Office for review and prior written approval as required by the Consent Order**. We recommend that the Company submit all agreements to the Office for review and prior written approval where required to do so by the Consent Order.**

Custody Agreement

As reported on page 10, the Company's bonds were held by an independent custodian; however, the Company and the custodian had not entered into a written custody agreement. **We recommend that the Company enter into a written custody agreement that complies with Rule 69O-143.042, F.A.C., prior to placing investments with independent custodians.**

Reporting of Admitted Assets

In its 2012 annual statement, the Company overstated its capital and surplus by $213,390 and incorrectly reported certain assets, as described beginning on page 15 of this report. **We recommend that, in future statements filed with the Office, the Company accurately report its assets and capital and surplus in accordance with the annual statement instructions and NAIC *Accounting Practices & Procedures Manual*.**

Writing Ratio

As reported on page 21, the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.1:1 at June 30, 2013. **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.**

Chief Financial Officer

The examination resulted in findings that the Company failed to comply with certain requirements of the Florida Insurance Code, the NAIC annual statement instructions and *Accounting Practices & Procedures Manual,* and a consent order issued by the Office, as reported herein. **We recommend that the Company hire a chief financial officer with significant expertise and experience in insurance regulatory compliance and statutory financial accounting and reporting concepts and principles.**

SUBSEQUENT EVENTS

On January 1, 2013, the Company entered into administrative services agreements with certain affiliates and, effective April 23, 2013, it entered into a consolidated tax allocation agreement. The agreements were not submitted to the Office for review and prior written approval as required by the Consent Order. However, the agreements were later submitted to the Office on April 25, 2013.

In its quarterly statement filed with the Office, the Company reported a loss before federal income tax of $998,383 and a net loss of $509,439 for the six months ended June 30, 2013.

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 June 30, 2013, the Company's ratio of adjusted annual net written premiums to surplus, as adjusted by the Office, was 4.1:1.

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, 2012, the Company's capital and surplus was $3,897,598 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: Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; and Kerry Krantz, Actuary.

Respectfully submitted,

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Christine N. Afolabi, CPA
Financial Specialist
Florida Office of Insurance Regulation