

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

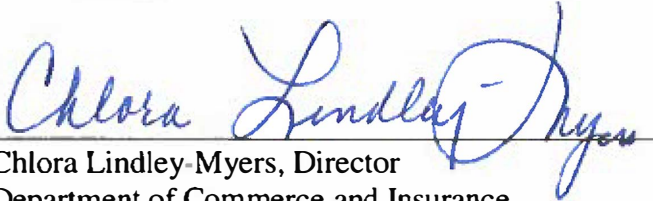
### ORDER

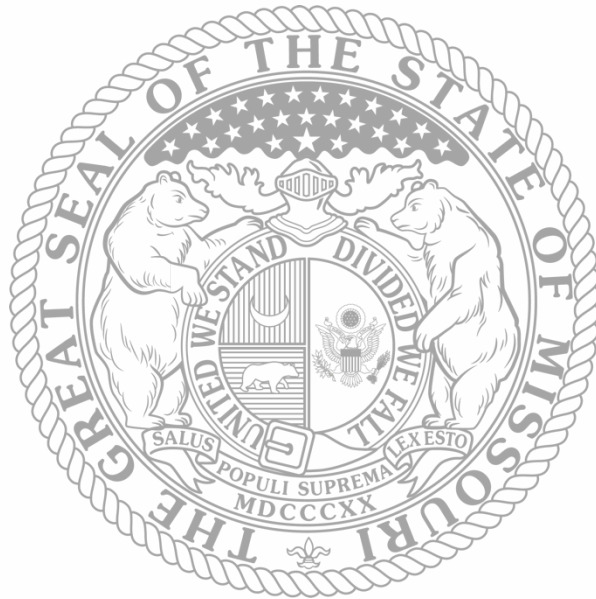
After full consideration and review of the report of the financial examination of Missouri Educators Unified Health Plan for the period ended June 30, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance, pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, company history, management and control, territory and plan of operation, growth of company, reinsurance, accounts and records, financial statements, comments on the financial statement items, financial statement changes resulting from examination, summary of recommendations, and subsequent events.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Educators Unified Health Plan as of June 30, 2020 be and is hereby ADOPTED as filed and for Missouri Educators Unified Health Plan to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 18<sup>th</sup> day of January, 2022.



  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF THE  
FINANCIAL EXAMINATION OF

# MISSOURI EDUCATORS UNIFIED HEALTH PLAN

AS OF  
JUNE 30, 2020

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, Missouri  
October 7, 2021

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

### **Missouri Educators Unified Health Plan**

hereinafter referred to as MEUHP or as the Company. Its administrative office is located at 3130 Broadway Boulevard, Kansas City, Missouri, 64111. This examination began on May 6, 2021, and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The Missouri Department of Commerce and Insurance (Department) has performed a single-state examination of MEUHP. The last examination of the Company by the Department covered the period of April 13, 2009 through June 30, 2015. This examination covers the period of July 1, 2015, through June 30, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

#### **Procedures**

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

### **SUMMARY OF SIGNIFICANT FINDINGS**

Minutes of the annual member meetings were not recorded and directors were not elected at the member meetings during the examination period, which is not in compliance with the Company's Bylaws.

Elections of officers were not disclosed in the minutes of the Board of Directors' meetings, which does not comply with the requirements of MEUHP Bylaws. Additionally, the Board of Directors' meetings did not include documentation of the Board's review of financial results and financial statements or the Board's review and approval of significant agreements and transactions.

Subsequent to filing its June 30, 2020 financial statements with the Department, the Company engaged an external CPA firm to review the financial statements. This review resulted in adjustments to the financial statements for certain unreported accruals. These adjustments were considered in the Financial Statement Changes Resulting from Examination section of this report, which resulted in a reduction of net assets (surplus) reported in the originally filed financial statements of approximately \$1.2 million.

**COMPANY HISTORY**

**General**

The Company was originally organized in April 2009 as a non-profit corporation for the purpose of providing a health insurance program for public school districts in Missouri. MEUHP pooled the risks of member school districts into a single large group that was fully-insured by an unaffiliated insurance company.

The Company’s Articles of Incorporation were amended and restated in December 2013 to convert to a self-insured business model. MEUHP operates under the provisions of Sections 537.620 to 537.650 RSMo (Political Subdivisions May Jointly Create Entity to Provide Insurance).

**Dividends and Assessments**

MEUHP’s Articles of Incorporation allow for dividends to be paid to members. However, no dividends were declared or paid during the examination period.

The Bylaws include provisions for periodic assessments as determined by the Board of Directors to pay the costs of maintaining a self-funded health program. Assessments to member school districts totaling \$5,082,096 were approved in February 2019. These assessments were necessary to address a significant loss that occurred in the 2017-2018 fiscal year. There were no other assessments to members noted for the examination period.

**Mergers and Acquisitions**

There were no mergers or acquisitions involving the Company during the examination period.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The management of the Company is vested in a Board of Directors. There is one director that represents each of nine geographic areas of Missouri. The directors have historically been the superintendent of a member school district. The superintendents appointed to the Board of Directors, as of June 30, 2020, were as follows:

<u>Region</u>	<u>Superintendent</u>	<u>School District</u>
Northwest	Karma Coleman	Tarkio R-I
Northeast	John French	Lewis County C-I
West Central	Terry Mayfield	Drexel R-IV
Central	Ty Crain	Fulton 58
Southeast	Adam Friga	Oran R-III
South Central	Eric Allen	Alton R-IV
Southwest	John Dern	Junction Hill C-12
St. Louis	Clint Freeman	Dunklin R-V
Kansas City	Jaret Tomlinson	Excelsior Springs 40

**Officers**

The officers serving, as of June 30, 2020, were as follows:

<u>Officer</u>	<u>Position</u>
Eric Allen	President
John French	Vice President
Terry Mayfield	Treasurer
Karma Coleman	Secretary

**Committees**

The Bylaws allow for committees of the Board of Directors to be established. However, there were no active committees as of the examination date.

**Corporate Records**

The Company's Articles of Incorporation and Bylaws were reviewed to determine compliance and the purpose of any amendments.

There were no amendments to the Articles of Incorporation during the examination period. The Bylaws were restated on February 19, 2016 to remove a section that required annual dues of \$250 from each member school district.

The Company did not record minutes for any of the annual member meetings that were held during the examination period. Section 7.10 of the Bylaws requires the Secretary to prepare minutes of the annual member meetings. Further, directors were not elected at the annual member meeting, as required by Section 4.4 of the Bylaws. It was explained that directors were appointed at other meetings of the Board of Directors.

Section 7.1 of the Bylaws requires officers of the Board of Directors to be elected at the annual meeting of the Board of Directors. Officer elections were disclosed in the Board of Directors' meeting minutes for only one year of the examination period.

The minutes of the Board of Directors' meetings were reviewed for proper approval of corporate transactions. There were several areas in which the Board of Directors did not review significant events and approve major transactions, or the review and approval was simply not recorded in the minutes. There were limited details in the minutes and very little attention to financial results. Minutes of a Board of Directors meeting typically should address significant components of the annual financial results and financial statements, such as revenues, enrollment, losses (claims), expenses, and loss reserves. The minutes did not disclose any explanations for the causes or remediation actions for the significant loss in the 2017-2018 fiscal year or the discussion and options considered for the significant assessment that was approved in February 2019. Additionally, the minutes did not disclose the considerations and negotiations that took place which resulted in the change in benefit administrators in 2017.

### **Administrative Service Companies**

MEUHP does not have any employees to perform day-to-day operations, except for an Executive Director. Most business functions are outsourced to third parties. Below is a summary of the significant service providers utilized, as of June 30, 2020:

- **Forrest T. Jones & Company, Inc. (FTJ)** – A consulting firm that provides most of management and administration for the daily operations of MEUHP. FTJ bills and collects premiums from member school districts. Compensation paid to FTJ is a monthly fee based upon a percentage of MEUHP’s premiums, as specified in an Administrative Services Agreement.
- **Cigna Health and Life Insurance Company (Cigna)** – A benefit administrator that provides a network of medical providers for member enrollees. Additional services include enrollment, claims handling, claims payment, customer service, case management, and pharmacy benefits. Pursuant to an Administrative Services Only (ASO) Agreement, the Company pays Cigna a monthly fee based upon a fixed rate per employee.
- **Levitt Financial Services** – An external accountant, Sally Levitt, provides accounting and financial statement preparation services.
- **Crooks Actuarial Consulting, LLC** – An actuarial firm that provides rating services and determines IBNR reserves for losses and loss adjustment expenses.

### **TERRITORY AND PLAN OF OPERATION**

As of June 30, 2020, the Company had 95 member school district members with approximately 6,900 total employees that were located primarily in rural areas of Missouri. The largest member, Warren County R-III, accounted for 7% of total premiums for the 2019-2020 fiscal year.

Cigna and an external actuary perform underwriting reviews of school districts that apply for membership in MEUHP. New school districts are approved by the Board of Directors and member school districts in the applicable region. School districts that terminate membership in MEUHP do not pay an exit fee assessment to cover the estimated claims runoff after the termination date.

MEUHP provides options of preferred provider organization (PPO) plans and health savings account (HSA) plans to the employees of member school districts. Employees may choose from a variety of deductible, coinsurance, and copay levels. Premium rating is structured with five tiers within each PPO and HSA plan. School districts with lower loss ratios receive lower premium rates while school districts with higher loss ratios have higher premium rates.

Cigna pays claims directly to medical providers for services provided to enrollees. Claim payments are issued daily by Cigna and paid from an MEUHP bank account dedicated for claims transactions. The Company makes daily deposits to the claims account to maintain the balance at a predetermined or “imprest” level.

MEUHP uses a fiscal year from July 1 to June 30. Any revisions to coverages, premium rates, deductibles, copays and coinsurance percentages are effective July 1 each year to correspond with the beginning of the fiscal year. Premiums are billed to member school districts on a monthly basis.



### GROWTH OF COMPANY

The table below shows the Company's membership and earned premiums for each fiscal year of the examination period.

Fiscal Year	Member School Districts	Billed Premiums
2015-16	119	\$53,674,954
2016-17	122	58,386,327
2017-18	116	60,245,934
2018-19	116	62,646,480
2019-20	95	50,231,641

As shown above, twenty-one school districts exited the Company at the end of the 2018-19 fiscal year due to assessments levied in 2019.

Below is a yearly summary of the Company's reported net assets (surplus) for the examination period:

As of Date	Net Assets
June 30, 2016	\$6,681,883
June 30, 2017	5,931,956
June 30, 2018	(999,884)
June 30, 2019	2,055,291
June 30, 2020	3,731,105

The Company had a significant net loss of \$6.9 million in the 2017-18 fiscal year due to high frequency and high severity of claims, higher than expected runoff of claims from exiting school districts, and premiums that were lower than budgeted due to a migration of enrollees to HSA plans. This large loss resulted in surplus of negative \$1 million at June 30, 2018. In response, the Board of Directors approved an assessment of \$5.1 million in February 2019 and an overall premium increase of 7.5%. Profitability was achieved in the 2018-19 and 2019-20 fiscal years as a result of the assessment and premium increase.

### REINSURANCE

#### Assumed

The Company does not assume any business.

#### Ceded

MEUHP obtained "stop-loss" coverage during the examination period from the benefit administrators. The stop-loss policy covers 100% of losses that exceed a deductible on an individual member basis. The stop-loss deductible was \$250,000 per member at the beginning of the examination period on July 1, 2015. The stop-loss deductible increased to \$750,000 per member, effective July 1, 2017, when Cigna became the benefit administrator. The stop-loss deductible remained at \$750,000 per member through the end of the examination period at June 30, 2020.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement or policy.

## **ACCOUNTS AND RECORDS**

### **General**

The Company's financial statements as of June 30, 2020, which were originally filed with the Department, used a modified cash basis of accounting. Some financial statement items were reported on a cash basis while other items were reported on an accrual basis. During our examination, the Company engaged an external CPA firm to review these financial statements. As a result of this review, adjustments were made to the financial statements originally filed with the Department to reflect an accrual basis of accounting using generally accepted accounting principles (GAAP) for all financial statement items. The above-noted adjustments were considered in the Comments on Financial Statements Items, Financial Statement Changes Resulting from Examination, and Summary of Recommendations located on pages nine and ten of this report.

### **Independent Auditor**

The Company did not have any audited financial statements during the examination period.

### **External Actuary**

The estimates for loss reserves and loss adjustment expense (LAE) reserves for each year under examination were provided by J. Michael Crooks, FSA, MAAA, of Crooks Actuarial Consulting, LLC, located in Stillwell, Kansas.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the financial statements filed by MEUHP with the Missouri Department of Commerce and Insurance and present the financial condition of the Company for the period ending June 30, 2020. The accompanying Comments on Financial Statement Items section reflects any examination adjustments to the amounts reported and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the Comments on Financial Statement Items section. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual financial statement item.

**ASSETS**  
as of June 30, 2020

Cash (Note 1)	\$7,667,015
Pharmacy Rebates Receivable (Note 2)	0
Other Receivables	12,067
<b>TOTAL ASSETS</b>	<b><u>\$7,679,082</u></b>

**LIABILITIES AND NET ASSETS**  
as of June 30, 2020

Claims Reserve	\$3,320,000
Loss Adjustment Expense Reserve	374,000
Advance Premiums (Note 3)	0
Accounts Payable and Accrued Expenses	253,977
<b>TOTAL LIABILITIES</b>	<b><u>\$3,947,977</u></b>
<b>NET ASSETS (SURPLUS)</b>	<b><u>\$3,731,105</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$7,679,082</u></b>

**STATEMENT OF REVENUES AND EXPENSES**  
For the Year Ended June 30, 2020

Premium Income	\$50,231,641
Ceded Premiums	(842,468)
Pharmacy Rebates	2,729,091
Interest Income	35,662
<b>Total Revenues</b>	<b><u>\$52,153,926</u></b>
Claims Incurred	\$46,593,649
Ceded Losses	0
Administrative Fees	3,201,616
General and Administrative Expenses	682,847
<b>Total Expenses</b>	<b><u>\$50,478,112</u></b>
<b>NET INCOME</b>	<b><u>\$ 1,675,814</u></b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS****Note 1 – Cash**

The Company did not account for the outstanding claims checks issued from a Citibank account that had not cleared, as of June 30, 2020. Cigna reports showed that \$528,941 of claim checks, issued on or prior to June 30, 2020, cleared the bank account in July 2020. This amount of claim checks should have been recognized as outstanding to reduce the reported balance for this bank account, as of June 30, 2020. An examination change was made to reduce cash by this amount.

**Note 2 – Pharmacy Rebates Receivable**

The Company did not accrue a receivable for pharmacy rebates that had been earned, as of June 30, 2020. A pharmacy rebate of \$572,913 was received from Cigna on September 24, 2020 for the period from January 1, 2020 to June 30, 2020. An examination change was made to add a receivable in this amount.

**Note 3 – Advance Premiums**

A premium tracking worksheet showed a large amount of premiums paid by school districts in advance of the July 1 due date for the July 2020 coverage month. GAAP requires a liability to be accrued for premiums received at the reporting date for periods subsequent to the reporting date. An examination change was made to include an advance premiums liability of \$1,270,840 for the July 2020 premiums received on or prior to the June 30, 2020 reporting date.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

<b>Reported Net Assets (Surplus) at June 30, 2020</b>			<b>\$ 3,731,105</b>
	<u>Increase</u>	<u>Decrease</u>	
Cash		\$ 528,941	
Pharmacy Rebates Receivable	\$ 572,913		
Advance Premiums		1,270,840	
Net Increase (Decrease)			<u>\$ (1,226,868)</u>
<b>Adjusted Net Assets (Surplus) at June 30, 2020</b>			<b><u>\$ 2,504,237</u></b>

## **SUMMARY OF RECOMMENDATIONS**

### **Annual Member Meetings (page 3)**

The Company should record minutes for all future annual member meetings, as required by Section 7.10 of the Bylaws. The Company should also ensure directors are properly elected at the annual member meeting to comply with Section 4.4 of the Bylaws.

### **Officer Elections (page 3)**

The Board of Directors should annually elect officer positions and disclose the elected officers in the meeting minutes to comply with Section 7.1 of the Bylaws.

### **Board of Directors Meeting Minutes (page 3)**

The Board of Directors should review significant components of the annual financial results and financial statements and include at least a minimum amount of detail from this review in the meeting minutes. The meeting minutes should also disclose the review and approval of significant agreements and transactions.

### **Examination Changes (page 8)**

The Company should obtain sufficient reports from Cigna that will allow for outstanding checks issued from the Citibank account to be identified at the end of each financial reporting period. The reported cash balance should be reduced by the total amount of the outstanding checks.

The Company should develop a methodology to estimate and record earned but unpaid pharmacy rebates at the end of each financial reporting period. For example, historical average rebates received on a per member basis could be used to approximate the rebates earned but not yet paid by Cigna.

The Company should record a liability in future financial statements for premiums received from member school districts in advance of the due date, in accordance with accrual accounting procedures.

## **SUBSEQUENT EVENTS**

There were no significant subsequent events noted from June 30, 2020 through the date of the report.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by Missouri Educators Unified Health Plan during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

State of Missouri            )  
  )    ss  
County of                    )

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Missouri Educators Unified Health Plan its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim Tunks  
Tim L. Tunks, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Commerce  
and Insurance

Sworn to and subscribed before me this 28<sup>th</sup> day of October, 2021.

My commission expires: March 30, 2023  
Hailey Luebert  
Notary Public



**HAILEY LUEBERT**  
My Commission Expires  
March 30, 2023  
Osage County  
Commission #15834368

### **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



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Sara McNeely, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce  
and Insurance