

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of MARCIT as of June 30, 2009

### ORDER

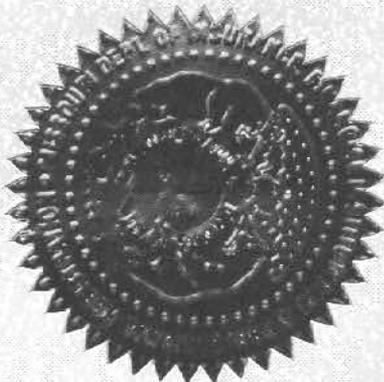
After full consideration and review of the report of the financial examination of MARCIT for the period ended June 30, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, 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 General Comments and/or Recommendations section of such report; (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 4<sup>th</sup> day of June, 2010.

A handwritten signature in black ink, appearing to read "John M. Huff".

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

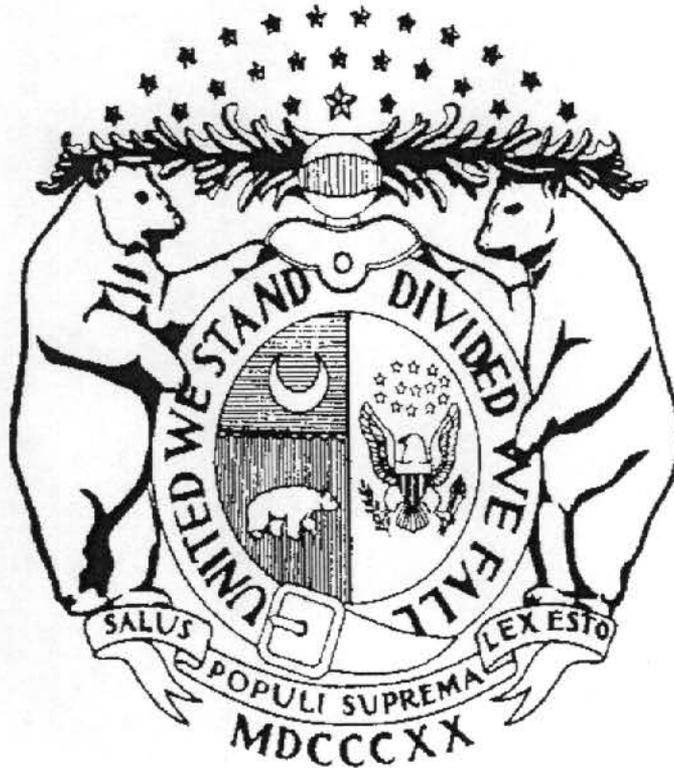


REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION OF

MARCIT

AS OF  
JUNE 30, 2009

**FILED**  
JUN 14 2010  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Kansas City, Missouri  
May 5, 2010

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Mary J. Hudson, Director  
Ohio Department of Insurance  
Midwestern Zone Secretary, NAIC

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102-0690

Gentlemen and Lady:

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

### **MARCIT**

hereinafter referred to as such or as the Association. Its administrative office is located at 600 Broadway, Suite 300, Kansas City, Missouri 64105, telephone number (816) 292-7571. This examination began on September 21, 2009 and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

We have performed our full scope association financial examination of MARCIT. The last full scope examination was completed as of June 30, 2005. This full scope examination covers the period of July 1, 2005 through June 30, 2009 and also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

The prior full scope examination was conducted by examiners from the States of Missouri and Kansas representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current examination was conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

## Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook), except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevail. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the Association including corporate governance, identifying and assessing inherent risk within the Association, and evaluating system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. Key activities for MARCIT included: Investments, Cash Receipts, and Claims and Actuarial Reserves.

The examiners relied upon information and workpapers provided by the Association's independent auditor, Conner Ash, PC of St. Louis, Missouri, for its audit covering the period from July 1, 2008 through June 30, 2009. Such reliance included fraud risk analysis and substantive procedures performed on investments.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements noted during the examination.

## SUBSEQUENT EVENTS

Effective July 1, 2009, the Association was reorganized into three separate legal entities: Midwest Public Risk of Missouri (MPR-MO), a public entity risk coverage pool providing coverage to Missouri public entities; Midwest Public Risk of Kansas (MPR-KS), a public entity risk coverage pool providing coverage to Kansas public entities; and Midwest Public Risk (MPR), a not-for-profit administrative corporation that will provide administrative services to MPR-MO and MPR-KS.

MPR-MO and MPR-KS entered into a Risk Sharing Agreement effective July 1, 2009. The intent of the Risk Sharing Agreement is to allow MPR-MO and MPR-KS to obtain a larger risk sharing base and greater benefits of cost savings. Only the health and dental funds of MPR-MO and MPR-KS are pooled under this agreement.

MPR-MO and MPR-KS entered into separate management agreements with MPR to provide all management and administrative services for the entities. Payments to MPR are determined pursuant to the adopted budget of MPR-MO and the directors of the MPR-MO Board of Directors.

## HISTORY

### General

The Association was formed by a merger of the Mid-America Regional Council Insurance Trust (Mid-America) and the Mid-America Regional Council Liability Insurance Trust (MARCLIT). Mid-America was formed under Chapter 287 RSMo (Workers' Compensation Law) and began providing workers' compensation coverage on July 1, 1983 and health and dental coverage under the provisions of Chapter 255 RSMo (Not for Profit Corporation Law). MARCLIT was originally formed under the provisions of Chapter 537 RSMo (Political Subdivision Assessable) and began providing property, casualty and liability coverage on December 31, 1984.

On June 6, 1991, the membership of Mid-America and MARCLIT approved the merger of both entities with the surviving entity being MARCLIT. Subsequent to the merger, MARCLIT changed its name to Mid-America Regional Council Insurance Trust. As a result of the merger, the Association began offering all lines of insurance under Chapter 537 RSMo. Effective July 1997, Mid-America changed its name to MARCIT.

As described in the Subsequent Event section, the Association was reorganized into three separate legal entities effective July 1, 2009: MPR-MO, MPR-KS, and MPR.

### Contribution Refunds

The contribution refunds paid by the Association to members of the workers' compensation fund during the examination period were as follows:

<u>Years-Ended</u>	<u>Cash</u>
2006	\$ 1,397,601
2007	753,747
2008	812,970
2009	-
<b>Total</b>	<b><u><u>\$ 2,964,318</u></u></b>

No refunds were paid to the health and dental or property and casualty funds during the examination period.

**Acquisitions, Mergers, and Major Corporate Events**

As discussed in the Subsequent Events sections of this report, effective July 1, 2009, the Association was reorganized into three separate legal entities: MPR-MO, MPR-KS, and MPR. MPR-MO and MPR-KS entered into a Risk Sharing Agreement to pool all premiums and losses of the two entities for the health and dental funds. MPR-MO and MPR-KS entered into separate management agreements with MPR to provide all administrative services for the entities.

**CORPORATE RECORDS**

The Association's Articles of Incorporation and Bylaws were reviewed. On November 3, 2006, the Bylaws were amended to permit surplus distributions as permitted by Missouri statutes, broaden eligibility standards of the Board of Directors, set up the Bylaws as a contract for the members, and clarify various issues. On June 11, 2008, the Articles of Incorporation and Bylaws were amended to allow for the creation of a separate Kansas pool. On May 6, 2009, the Articles of Incorporation and Bylaws were again amended to allow for MARCIT to be split into three separate entities.

The minutes of the Board of Directors' meetings and membership meetings were reviewed for proper approval of corporate transactions. In general, the minutes appeared to properly reflect and approve the Association's major transactions and events for the period under examination.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The Articles of Incorporation and Bylaws require eleven directors to be elected to the Board of Directors. The Board of Directors elected and serving as of June 30, 2009, were as follows:

<b>Name and Address</b>	<b>Business Affiliation</b>
Alexa Barton Liberty, Missouri	County Administrator Clay County, Missouri
Kerry Sampson Trenton, Missouri	City Administrator Trenton, Missouri
Eric Johnson Blue Springs, Missouri	City Administrator Blue Springs, Missouri
David Blackburn Riverside, Missouri	City Administrator Riverside, Missouri
Brad Foster Belton, Missouri	City Administrator Belton, Missouri
Robert Newhart Polo, Missouri	Superintendent Polo R-VIII School District
Kirk Decker Grandview, Missouri	Assistant City Administrator Grandview, Missouri
David Haughland Excelsior Springs, Missouri	City Manager Excelsior Springs, Missouri
Herb Soule Sugar Creek, Missouri	Police Chief Sugar Creek, Missouri
Cheryl Cornett Pattonsburg, Missouri	Superintendent Pattonsburg R-II School District
Melissa Mundt Gardner, Kansas	Assistant City Administrator Gardner, Kansas

Director Melissa Mundt resigned effective June 30, 2009 as a result of the reorganization and is now the Board Chair for MPR-KS. Fred Weibling, Superintendent of Madison C-3 School District was elected October 9, 2009 to fill this vacancy.

Director Cheryl Cornett resigned effective June 30, 2009. Amy Brusven, Human Resources Director of the City of Liberty, Missouri, was subsequently appointed on November 18, 2009, to fill this vacancy.

**Officers**

The officers of the Association elected and serving as of June 30, 2009 were as follows:

<u>Name</u>	<u>Title</u>
Alexa Barton	Board Chair
Kerry Sampson	Board Vice - Chair
Eric Johnson	Board Secretary
David Blackburn	Board Treasurer

**Committees**

The Association does not have any formal committees, but does have several advisory councils comprised of members of the Association. In general, Board members do not serve on the councils. The councils are advisory only and have no power to make decisions on behalf of the Association.

**Holding Company, Subsidiaries and Affiliates**

The Association is organized as an assessable pool and is thus member-owned. The Association was not a member of a holding company system as of June 30, 2009.

Effective July 1, 2009, the Association was reorganized into three separate legal entities: MPR-MO, MPR-KS, and MPR. MPR-MO and MPR-KS entered into a Risk Sharing Agreement to pool all premiums and losses of the two entities for the health and dental funds. In addition, MPR-MO and MPR-KS entered into separate management agreements with MPR to provide all management and administrative services for the entities. As a result of the agreements, the three entities appear to be related parties in accordance with Statements of Statutory Accounting Principles No. 25 (Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties).

**FIDELITY BOND AND OTHER INSURANCE**

The Association is a named insured on a commercial crime policy providing crime and fidelity coverage with a liability limit of \$400,000 and a \$4,000 deductible. The Association is also a member entity in the pool and the associated crime and fidelity policy provides a liability limit of \$1,000,000 and a \$25,000 deductible. This combined level of coverage complies with the suggested minimum amount of fidelity insurance per NAIC guidelines.

The Association also purchases directors' and officers' liability and fiduciary liability coverages from outside carriers. The membership in the MARCIT pool provides additional coverages which include, but are not limited to: liability, motor vehicle physical damage, and property.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

MARCIT provides its employees with a range of benefits including, but not limited to, paid time off, group medical, dental and vision insurance, group term life insurance, short-term and long-term disability, a deferred compensation plan and a non-contributory defined contribution retirement plan.

Under the non-contributory defined contribution retirement plan, contributions to the plan are made by MARCIT. Prior to January 1, 2008, MARCIT contributed 5% of annual salary and 3.75% of annual salary over \$10,000 to the plan. Effective January 1, 2008, MARCIT contributes 10% of each employee's annual salary to the plan. There are no employee contributions to the plan.

Effective July 1, 2009, MARCIT was essentially split into three entities and all employees of MARCIT were shifted to become employees of a newly created entity, MPR. Going forward, MPR will provide management and administrative services under the terms of a management agreement.

## **TERRITORY AND PLAN OF OPERATION**

MARCIT is licensed by the DIFP under Chapter 537.620 RSMo (Political subdivisions) to write liability and all other insurance. The Association is also licensed as a municipal group funded pool in the State of Kansas.

The Association operates as a self-insured pool, providing to its members a variety of insurance coverages under the three individual pools of property and casualty, workers compensation, and health and dental. Members of the Association consist of cities, counties, school districts, and other governmental entities. As of June 30, 2009, thirty-four members participated in the property and casualty pool, forty-one members participated in the workers compensation pool, and ninety-nine members participated in the health and dental pool.

MARCIT contracts with several service providers for general management and accounting, claims administration and underwriting services. Mid-America Regional Council provides accounting, treasury, information technology, and various other services. Xchanging, Inc. provides claims administration services for the property and casualty fund and workers compensation fund. Benefits Management, Inc. provides claims administration for PPO health plans, billing for health plans and other administrative services. Humana, Inc. provides claims administration functions for the HMO health plans. Preferred Health Professionals provide access to preferred provider networks for MARCIT's PPO plans. Delta Dental USA provides a provider network and processes claims for the MARCIT dental plan and Vision Service Plan provides vision services and products for the MARCIT vision plan.

## GROWTH OF ASSOCIATION AND LOSS EXPERIENCE

The Association has experienced significant increases in member contributions in the last two years of the examination period. Losses and Loss Adjusting Expenses increased significantly during 2007 and 2009 while Fund Equity has remained fairly consistent during the examination period.

Year	Member Contributions Earned	Losses & Loss Adjusting Expenses (LAE)	Fund Equity	Ratio of Contributions Earned to Fund Equity	Ratio of Loss & LAE Expenses to Member Contribution Earned
2006	29,474,734	17,866,041	27,997,191	1.05	60.61%
2007	29,869,158	26,082,059	28,258,315	1.06	87.32%
2008	35,025,040	26,291,724	28,930,996	1.21	75.07%
2009	43,868,230	36,556,863	25,321,609	1.73	83.33%

## REINSURANCE

### General

The Association's contribution activity on an earned, assumed, and ceded basis for the period under examination is detailed below:

	FY 2009	FY 2008	FY 2007	FY 2006
Contributions Earned	\$ 43,868,230	\$ 35,025,040	\$ 29,869,158	\$ 29,474,734
Reinsurance Assumed	-	-	-	-
Reinsured Ceded	1,971,962	2,166,614	2,094,852	1,716,149
Net Contributions Earned	\$ 41,896,268	\$ 32,858,426	\$ 27,774,306	\$ 27,758,585

### Assumed

The Association does not assume any reinsurance.

### Ceded

The Association has property reinsurance coverage under an excess of loss agreement with Lexington Insurance Company. The maximum per occurrence retention is \$100,000 and the reinsurer's maximum per occurrence liability limit is \$250,000,000. The reinsurer's maximum liability is subject to various sub-limits based on the specific types of insured properties.

The Association has casualty reinsurance coverage under two reinsurance arrangements. MARCIT is a member of an association sponsored mutual captive insurance company, Government Entities Mutual, Inc. (GEM). Under a casualty excess of loss agreement with GEM, the Association retains \$500,000 per loss occurrence, per member, and GEM is liable for losses in excess of the retention, limited to \$1,000,000 per loss occurrence, per member. The Association has an additional excess of loss agreement with General Reinsurance Corporation (GenRe). Under the agreement, MARCIT retains \$1,500,000 per incident, per member, and GenRe is liable for losses in excess of the retention, limited to the Missouri statutory award limits. Reinsurer liability is limited to \$15,000,000 in aggregate.

MARCIT has workers compensation coverage under an excess of loss agreement with Safety National Casualty Corporation (SNCC). MARCIT retains \$500,000 per accident, and SNCC is liable for the excess, limited to the statutory limit for workers compensation coverage and \$1,000,000 for employer liability. On an aggregate basis, SNCC provides up to \$1,000,000 in coverage after MARCIT reaches the aggregate attachment point of \$10,541,547.

The Association has an excess policy with Westport Insurance Corporation (WIC) that covers the health risks of the pool. Under the policy, MARCIT retains \$250,000 per covered person as well as an additional aggregate annual retention of \$100,000. The coverage provided by WIC has a per-person lifetime limit of \$2,000,000.

The Association does not reinsure the dental or vision portions of the pool.

The Association 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.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The Association has no funds on deposit with Missouri.

### Deposits with Other States

The Association has no funds on deposit with other states.

## ACCOUNTS AND RECORDS

### Auditor

The financial statements of MARCIT during the examination period of July 1, 2005, through June 30, 2009, were audited by the CPA firm of Connor Ash, P.C., St. Louis, Missouri.

**Actuary**

Timothy P. Quinn, FCAS, MAAA, ARM of Towers Perrin performed an unpaid loss analysis of the Association's workers compensation and property and casualty pool loss reserves for each fiscal year under examination. Rachel M. Boles, FCAS, MAA of Towers Perrin also signed the 2008 and 2009 analyses.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of MARCIT for the period ending June 30, 2009. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

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

**Assets**

Cash and Cash Equivalents	\$ 6,290,314
Investments	35,410,890
Accrued Interest	136,336
Contributions Due from Members	376,276
Excess Insurance Recoverable on Paid Losses	488,770
Deductible Receivable	97,747
Other Receivables	2,497
Prepaid Insurance and Other Expenses	8,316
Governmental Entities Mutual, Inc. Membership Deposit	500,000
Excess Insurance Recoverable on Unpaid Losses	1,796
Land and Construction in Progress	1,081,289
Property and Equipment	51,917
<b>TOTAL ASSETS</b>	<b>\$ 44,446,148</b>

## Liabilities, Surplus and Other Funds

Current Claim Reserves	\$	7,619,421
Reserve for Unallocated Loss Adjustment Expenses		493,972
Accounts Payable		528,271
Loss Control Credit Program Liability		1,038,579
Unearned Contributions		1,549,130
Accrued Refund of Contributions		1,000,157
Noncurrent Claim Reserves		6,895,009
<b>Total Liabilities</b>		<b>19,124,539</b>
Fund Equity - Invested in Capital Assets		1,133,206
Fund Equity - Unrestricted		24,188,403
<b>Total Fund Equity</b>		<b>25,321,609</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$</b>	<b>44,446,148</b>

## Summary of Operations

Contributions Earned	\$ 43,868,230
Operating Expenses:	
Losses and Loss Adjustment Expenses:	
Paid	\$ 37,559,222
Change in Reserves	(1,002,358)
Excess Insurance Premiums	1,584,586
Other Insurance Premiums	446,944
Contribution Taxes	198,819
Claims Administration Fees	1,959,959
Loss Prevention	915,370
General and Administrative	3,252,834
Depreciation	25,976
Total Operating Expenses	<u>\$ 44,941,352</u>
Operating Income	\$ (1,073,122)
Non-Operating Revenues (Expenses)	
Interest Income	\$ 1,101,421
Net Decrease in Fair Value of Investments	(2,387,491)
Other Income	147,406
Refunds of Contributions	(1,397,601)
Total Non-Operating Revenues (Expenses)	<u>\$ (2,536,265)</u>
<b>Increase (Decrease) in Fund Equity</b>	<b>\$ (3,609,387)</b>

## Fund Equity Account

Fund Equity, June 30, 2008	\$ 28,930,996
Decrease in Fund Equity	<u>(3,609,387)</u>
<b>FUND EQUITY, JUNE 30, 2009</b>	<b>\$ 25,321,609</b>

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

None

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None

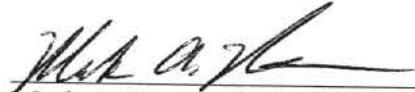
**SUMMARY OF RECOMMENDATIONS**

None



**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.



Mark A. Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration