

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' Trust for the period ended June 30, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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 finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

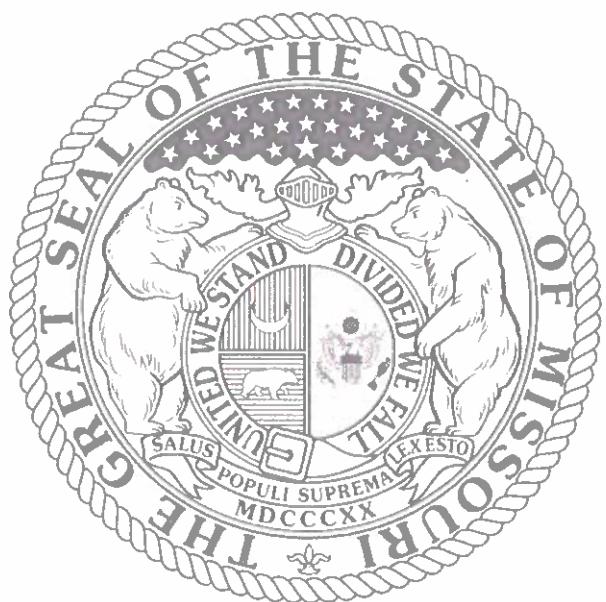
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Educators' Trust as of June 30, 2019 be and is hereby ADOPTED as filed and for Missouri Educators' Trust to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 22nd day of March, 2021.

A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Commerce and Insurance





REPORT OF THE
FINANCIAL EXAMINATION OF

MISSOURI EDUCATORS' TRUST

AS OF
JUNE 30, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, Missouri
January 28, 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' Trust

hereinafter referred to as MET. Its administrative office is located at 300 South Jefferson Avenue, Springfield, Missouri, 65806. This examination began on September 28, 2020, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of MET. This is the first examination of MET and covers the period of July 1, 2014, through June 30, 2019. This examination also included the material transactions or events occurring subsequent to June 30, 2019.

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

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

SUBSEQUENT EVENTS

MET's financial statements, as of June 30, 2020, reported net position (surplus) of \$9.0 million, which is a significant increase from the \$3.0 million net position reported, as of June 30, 2019. The large increase in surplus was due to net income of \$6.0 million, which resulted from an improved loss ratio of 86% and an increase in pharmacy rebates.

COMPANY HISTORY

General

Missouri Educators' Trust was organized in July 2014 under the provisions of Sections 537.700 to 537.755 RSMo (Missouri Public Entity Risk Management Fund) for the purpose of providing a self-insured health insurance program for public school districts in Missouri. MET commenced business on July 1, 2014, with 68 member school districts that insured approximately 8,600 employees.

Dividends and Assessments

MET's Articles of Association and Bylaws do not have any provisions for distributions of any excess funds in MET's net position (surplus) or special assessments for any deficits in the net position. Annual assessments (premiums) are determined on a group basis and are uniform for all member school districts.

Mergers and Acquisitions

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

CORPORATE RECORDS

MET's Articles of Association and Bylaws were reviewed. There were no amendments or changes to the Articles of Association during the examination period. The Bylaws were revised on November 20, 2015, to change the timing required for various meetings, actions, approvals, and reports of the Executive Board. The Bylaws were revised on November 1, 2019, to make minor changes to Executive Board meeting dates, officer elections, and starting dates of three year terms. The Bylaws were also revised on October 30, 2020, to establish duties and responsibilities of the Executive Director position (who started July 1, 2020) and transfer certain duties from the President of the Executive Board to the Executive Director.

The minutes of the Executive Board and Board of Delegates' meetings were also reviewed for proper approval of corporate transactions.

MANAGEMENT AND CONTROL

Corporate Governance

The management of MET is vested in an Executive Board with members that are elected by the Board of Delegates. Each member school district has a representative on the Board of Delegates. MET's Bylaws specify that the Executive Board shall consist of nine members that are appointed for staggered, three year terms. The Executive Board members appointed and serving, as of June 30, 2019, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Richard Asbill	Superintendent, Cassville R-IV School District
Chris Berger	Superintendent, Waynesville R-VI School District
Melonie Bunn	Superintendent, Richards R-V School District
Zach Harris	Superintendent, Lamar R-I School District
Lance Massey	Superintendent, Wheaton R-III School District
Jeff Mingus	Superintendent, Forsyth R-III School District
Brian Pekarek	Superintendent, Albany R-III School District
Tony Simmons	Superintendent, Verona R-VII School District
Chance Wistrom	Superintendent, Republic R-III School District

Committees

The Bylaws require the Executive Board to have a Nominating Committee that will annually recommend a slate of three nominees for appointment to the Executive Board, subject to approval by the Board of Delegates. Other committees of the Executive Board that were operational, as of June 30, 2019, were as follows: Finance and Investments, Wellness, Policies and Procedures, and Communications.

Officers

The Executive Board officers serving, as of June 30, 2019, were as follows:

<u>Officer</u>	<u>Position</u>
Lance Massey	President
Chris Berger	Vice President
Jeff Mingus	Secretary

Administrative Service Companies

MET has an Executive Director, but does not have any employees to perform day-to-day operations. All business functions are outsourced to third parties. Below is a summary of the service providers utilized, as of June 30, 2019:

- **Gallagher Benefit Services, Inc. (GBS)** – A consulting firm that provides various administrative and management services for the daily operations of MET. Compensation paid to GBS is a monthly fee based upon a percentage of premiums.
- **Aetna Health Inc. (Aetna)** – A benefit administrator that provides a network of medical providers for member enrollees. Additional services include claims handling, claims payment, customer service, and case management. MET is a self-insured entity and therefore, MET reimburses Aetna for 100% of claims paid for member enrollees. MET also pays a monthly fee based upon the number of enrollees as compensation for the services provided.
- **Anthem Blue Cross and Blue Shield (Anthem)** – A benefit administrator that provides the same services as explained for Aetna above. The compensation paid to Anthem is also a monthly fee based upon the number of enrollees.
- **Maxor National Pharmacy Services, LLC** – A pharmacy benefit provider for all member enrollees.
- **KPM CPAs, P.C.** – An accounting firm that provides accounting and financial statement preparation services.
- **GBS Healthcare Analytics Consulting** – A consulting firm that determines IBNR reserves on an annual basis that are used by MET to book the liabilities in its financial statements.
- **PFM Asset Management, LLC** – An asset management firm that provides investment management and advisory services.
- **Businessolver.com, Inc.** – A benefits management firm that provides member enrollment and COBRA administration.

MET changed its external accounting firm in 2020. The minutes for the June 26, 2020 Executive Board meeting noted that MET's prior auditing firm, Brown, Smith & Wallace, LLP would become the Company's accounting firm to replace KPM CPAs, P.C.

TERRITORY AND PLAN OF OPERATION

As of June 30, 2019, MET had 82 member school districts with approximately 10,600 employees that were located primarily in rural areas of Missouri. The largest member accounted for 8% of total premiums for the 2018-2019 fiscal year. Employees of GBS perform underwriting reviews of school districts that apply for membership in MET.

MET's two benefit administrators, Aetna and Anthem, offer various health care plans to the employees and retirees of member school districts. Plan options include preferred provider organization (PPO) plans, exclusive provider organization (EPO) plans, and high deductible, health savings account plans. Aetna and Anthem pay claims directly to medical providers for services provided to enrollees. MET reimburses Aetna and Anthem for claims paid on a weekly basis.

MET uses a fiscal year from July 1 to June 30. All policies issued to members have beginning and ending effective dates that correspond with the fiscal year. Premiums are billed to member school districts on a monthly basis.

GROWTH OF COMPANY

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

Fiscal Year	Member School Districts	Earned Premiums
2014-15	68	\$55,748,480
2015-16	81	57,945,784
2016-17	81	65,866,004
2017-18	83	73,006,904
2018-19	82	75,968,828

As shown above, the number of member school districts has had little change after a large increase in the second year of operations. Premiums increases were due to rate increases needed to meet increasing levels of losses.

Below is a yearly summary of MET's net position (surplus) for the examination period:

As of Date	Net Position (Surplus)
June 30, 2015	\$ 7,419,594
June 30, 2016	11,603,382
June 30, 2017	2,368,071
June 30, 2018	(470,846)
June 30, 2019	2,967,257

The large declines in surplus in the 2016-17 and 2017-18 fiscal years were due to increased severity and frequency of claims. The loss ratios for these two years were 104% for 2016-17 and 95% for 2017-18. In comparison, the loss ratios for the other three years in the examination period were all below 90%.

REINSURANCE

Assumed

MET does not assume any business.

Ceded

MET has had reinsurance coverage under the same policy since it was organized in July 2014. A policy with Sun Life Assurance Company of Canada, effective July 1, 2014, provides stop-loss coverage on an individual basis. Coverage terms and reinsurance premiums are renewed on an annual basis. The policy covers 100% of losses that exceed MET's deductible, which was \$400,000 per enrollee, per year, as of June 30, 2019.

MET 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

Independent Accountants

The certified public accounting (CPA) firm, Brown, Smith & Wallace, LLP (BSW), in St. Louis, Missouri, performed audits of MET's financial statements for all years of the examination period. BSW's workpapers for the audit of the June 30, 2019 financial statements were reviewed and used in the course of the examination as deemed appropriate. MET utilized a new auditing firm, Conner Ash P.C., beginning with the fiscal year ending June 30, 2020.

External Actuary

The estimate of MET's IBNR loss reserves for medical and pharmacy claims, as of June 30, 2019, was determined by John Albrecht, ASA, MAAA. Mr. Albrecht is employed by the Healthcare Analytics Consulting unit of GBS.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by MET with the Missouri Department of Commerce and Insurance and present the financial condition of MET for the period ending June 30, 2019. 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 MET and noted in the workpapers for each individual financial statement item.

ASSETS
as of June 30, 2019

Investments at Fair Value	\$ 1,563,955
Cash and Cash Equivalents	8,077,292
Contributions Receivable	323,590
Prescription Drug Rebates Receivable	1,830,989
Reinsurance Recoverables	768,775
Other Assets	<u>5,049</u>
TOTAL ASSETS	<u>\$12,569,650</u>

LIABILITIES AND NET POSITION
as of June 30, 2019

Claims and Claims Expense Reserves	\$ 5,803,000
Claims Payable	2,054,515
Advance Contributions	1,320,912
Accounts Payable and Accrued Expenses	<u>423,966</u>
TOTAL LIABILITIES	\$ 9,602,393
NET POSITION (SURPLUS)	<u>\$ 2,967,257</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$12,569,650</u>

STATEMENT OF REVENUES AND EXPENSES
For the Year Ended June 30, 2019

Member Contributions	\$75,968,828
Ceded Premiums	(3,660,928)
Prescription Drug Rebates	3,740,014
Investment Income	196,888
Investment Income	<u>193,553</u>
Total Revenues	\$76,438,355
Claims and Claims Expenses	\$63,860,504
General and Administrative Expenses	<u>9,139,748</u>
Total Expenses	<u>\$73,000,252</u>
NET OPERATING INCOME	<u>\$ 3,438,103</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by Missouri Educators' Trust and its administrator, Gallagher Benefit Services, Inc., during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
County of Cole)
 ss

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

Sworn to and subscribed before me this 5th day of March, 2021.

My commission expires:

March 30, 2021



Notary Public



HAILEY LUSSERT
My Commission Expires
March 30, 2023
Ozark County
Commission #15634366

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.

Michael R. Shadowens

Michael Shadowens, CFE
Assistance Chief Financial Examiner
Missouri Department of Commerce
and Insurance