

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 St. Louis Area Insurance Trust for the period ended June 30, 2018, 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 findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, reinsurance, accounts and records, financial statements, comments on financial statement items, examination changes and general comments and/or recommendations.

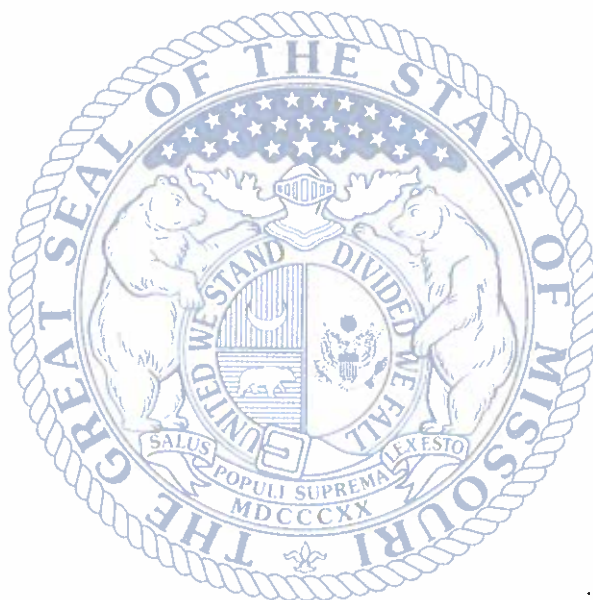
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of St. Louis Area Insurance Trust as of June 30, 2018 be and is hereby ADOPTED as filed and for St. Louis Area Insurance Trust to take the following action or actions, which I consider necessary to cure 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 03rd day of March, 2020.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



FILED

MAR 13 2020

**DIRECTOR OF
MISSOURI DEPARTMENT OF
COMMERCE AND INSURANCE**

REPORT OF THE
FINANCIAL EXAMINATION OF

ST. LOUIS AREA INSURANCE TRUST

AS OF
JUNE 30, 2018

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, Missouri
January 30, 2020

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

St. Louis Area Insurance Trust

hereinafter referred to as SLAIT or as the Trust. Its administrative office is located at 1001 Highlands Plaza Drive West, St. Louis, Missouri, 63110. This examination began on September 16, 2019, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of SLAIT. The last examination was completed as of June 30, 2013. This examination covers the period of July 1, 2013, through June 30, 2018. This examination also included the material transactions or events occurring subsequent to June 30, 2018.

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

SLAIT's financial statements, as of June 30, 2018, reported a reinsurance recoverable of \$2,500,000 that was subject to pending litigation. The recoverable represented 66% of SLAIT's fund balance (surplus), as of the examination date.

The reinsurance recoverable relates to a claim that occurred in 2012 and was settled in January 2017. SLAIT was entitled to a reinsurance recovery of \$2,500,000 under the terms of the applicable reinsurance agreement. However, the Trust's former claims administrator erroneously reported the claim to the wrong reinsurer. The filing error was not discovered by the claims administrator or the incorrectly identified reinsurer until three years after the underlying claim was initially reported. Upon discovery of the filing error, the underlying claim was submitted to the correct reinsurer, but was subsequently denied for lack of timely reporting.

SLAIT has litigation involving both reinsurers and the former claims administrator seeking recovery of \$2,500,000 in reinsurance proceeds. The litigation was still pending as of the date of this report. Attempts to settle the lawsuit have been unsuccessful and a trial date is expected to be set in late 2020. Neither reinsurer involved in the litigation was being utilized by SLAIT as of the examination date.

COMPANY HISTORY

General

St. Louis Area Insurance Trust was formed in August of 1998 through a merger of two separate trusts, formerly known as the Property and Casualty Trust of St. Louis, Inc. (PACT) and the St. Louis Area Insurance Trust (predecessor trust). PACT was formed on February 10, 1987, under the provisions of Chapter 537 RSMo (Risk Management for Political Subdivisions) for the purpose of providing a voluntary self-insured liability program for political subdivisions of Missouri.

St. Louis Area Insurance Trust (predecessor trust) was formed in August of 1986 under the provisions of Chapter 287 RSMo (Workers Compensation Law) for the purposes of providing a self-insured workers' compensation program for political subdivisions of Missouri. During 2009, the Trust began offering health insurance on a self-insured basis.

Dividends and Assessments

SLAIT tracks the net profits or losses of each policy year for both the workers' compensation and liability plan and the health insurance plan. As the claims for each policy year become fully developed, the Board of Directors determine whether to pay distributions, if a surplus exists, or to require an assessment, if a deficit exists.

No special assessments were made for policy year deficits during the examination period. Surplus distributions were approved by the Board of Directors in the following amounts during the examination period:

Fiscal Year	Workers' Compensation and Liability Plan	Health Plan
2013-2014	\$1,548,679	\$ 0
2014-2015	745,533	0
2015-2016	0	1,000,000
2016-2017	0	1,258,339
2017-2018	0	1,000,000

Mergers and Acquisitions

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

CORPORATE RECORDS

The Trust'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 amended on January 7, 2016 to revise the sections regarding involuntary termination of membership, notification period for a voluntary withdrawal of membership, and liquidated damages due if a voluntary withdrawal of membership is not submitted within the notification period. The minutes of the Board of Directors' meetings were also reviewed for proper approval of corporate transactions.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Trust is vested in a Board of Directors, which is appointed by the members. The Trust's Bylaws specify that the Board of Directors shall consist of twelve members that are appointed in staggered, three year terms. The Board of Directors appointed and serving, as of June 30, 2018, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Bola Akande	City Administrator, City of Brentwood, Missouri
Matt Conley	City Administrator, City of St. Ann, Missouri
Marty Corcoran	City Manager, City of Maplewood, Missouri
Amy Hamilton	City Manager, City of Richmond Heights, Missouri
Douglas Harms	City Administrator, City of Des Peres, Missouri
Craig Owens	City Manager, City of Clayton, Missouri
Mark Perkins	City Administrator, City of Creve Coeur, Missouri
Robert Shelton	City Administrator, City of Frontenac, Missouri
Barbara Sondag	City Manager, City of Olivette, Missouri
David Watson	Director of Finance, City of Maryland Heights, Missouri
Steve Wylie	City Manager, City of Webster Groves, Missouri
Matt Zimmerman	City Manager, City of Hazelwood, Missouri

Committees

The Bylaws do not require any committees, but allow for committees to be established as deemed necessary. During the examination period, various Board committees were maintained to address specific areas, such as rates, wellness, litigation, director and officer nominations, and strategy.

Officers

The officers elected by the Board of Directors and serving, as of June 30, 2018, were as follows:

<u>Officer</u>	<u>Position</u>
Craig Owens	Chair
Barbara Sondag	Vice Chair
Bola Akande	Secretary and Treasurer

Administrative Service Companies

SLAIT does not have any employees. All business functions are outsourced to third parties, which are summarized below:

The Daniel and Henry Company (DHC) – Provides various administrative services for the daily operations of SLAIT.

Thomas McGee, L.C. – Provides claims handling and claims payment services for workers' compensation and liability policies.

RightChoice Managed Care, Inc. dba Anthem Blue Cross and Blue Shield – Provides claims handling and claims payment services for health insurance policies.

Phillip E. Pfeiffer, CPA – Provides accounting services, loss reserve calculations, and financial statement preparation services.

PricewaterhouseCoopers, LLP – Provides actuarial services to forecast losses for rate setting, estimate ultimate losses and loss reserves for workers' compensation and liability business.

TERRITORY AND PLAN OF OPERATION

Members of SLAIT must be political subdivisions of the State of Missouri with full-time, professional city management. As of June 30, 2018, the Association had 29 members that were all located within the St. Louis metropolitan area. The membership includes 26 cities, 2 emergency dispatch centers, and 1 commission. The largest member accounted for 11% of total premiums for the 2017-2018 policy year.

All members participate in the Trust's workers' compensation and liability insurance plan. Liability coverages include automobile liability, general liability, and police liability. Member deductibles are \$500 for automobile and general liability coverage and \$2,500 per occurrence for police liability.

There are 20 members that participate in the Trust's health insurance plan. SLAIT has a group policy with Anthem Blue Cross and Blue Shield (Anthem). Anthem pays all member claims to providers and bills the Trust for reimbursement on a semi-monthly basis. Enrollee deductibles vary by member from \$250 to \$2,000, as elected by each member.

SLAIT 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. Below is a summary of earned premiums for the policy year from July 1, 2017 to June 30, 2018:

<u>Line of Business</u>	<u>2017-18 Premiums</u>	<u>Percent of Total</u>
Workers' Compensation	\$ 7,917,291	23.1%
Liability	2,384,096	6.9%
Health	<u>24,059,912</u>	<u>70.0%</u>
Total	<u>\$34,361,299</u>	<u>100.0%</u>

GROWTH OF COMPANY

The table below shows the Trust's earned premiums by line of business for each policy year of the examination period.

<u>Year</u>	<u>Workers' Compensation</u>	<u>Liability</u>	<u>Health</u>
2013-14	\$5,959,750	\$2,089,958	\$22,040,175
2014-15	6,422,792	2,138,280	22,544,617
2015-16	6,449,110	2,196,216	22,189,022
2016-17	7,068,591	2,253,464	22,799,331
2017-18	7,917,291	2,384,096	24,059,912

As shown above, there were no significant changes in yearly premium levels during the examination period.

The Trust's Bylaws require the health business to have separate accounting from the workers' compensation and liability business. As a result, there is a separate fund balance (surplus) that is tracked for each of the two business segments. Below is a yearly summary of the fund balance for each business segment and the overall fund balance from the end of the prior examination period to the end of the current examination period:

<u>As of Date</u>	<u>Fund Balance (Surplus)</u>		
	<u>Workers' Compensation and Liability</u>	<u>Health</u>	<u>Total</u>
June 30, 2013	\$8,060,415	\$4,254,026	\$12,314,441
June 30, 2014	8,400,866	6,424,592	14,825,458
June 30, 2015	6,693,795	9,097,148	15,790,943
June 30, 2016	4,045,585	9,377,774	13,423,359
June 30, 2017	(2,245,751)	10,361,803	8,116,052
June 30, 2018	(7,833,707)	11,607,190	3,773,483

The fund balance for the workers' compensation and liability business decreased significantly during the examination period. The overall decrease was \$15.9 million, which resulted in a large deficit balance as of the examination date. The last four policy years, covering the period from July 1, 2014 to June 30, 2018, had a collective deficit of \$9.4 million for workers' compensation. The poor results were due mostly to a higher than normal severity of losses for workers' compensation. There was also adverse development of loss reserves for policy years prior to the examination period for both workers' compensation and liability claims. The Board of Directors is planning for assessments in future years to address the negative fund balance.

The fund balance for health insurance business increased significantly during the examination period. The overall increase was \$7.2 million for the 5 year period ending June 30, 2018, which has offset some of the losses from the workers' compensation and liability business.

REINSURANCE

Assumed

The Trust does not assume any business.

Ceded

The Trust executes reinsurance agreements annually with effective dates that coincide with the SLAIT fiscal year and policy year that run from July 1 to June 30. Three separate reinsurance agreements are obtained to cover risks for workers' compensation, liability, and health insurance. The reinsurance coverages for agreements in effect, as of June 30, 2018, are described below.

Workers' compensation reinsurance is provided in an excess of loss agreement with New York Marine and General Insurance Company. The agreement covers losses up to statutory limits in excess of the Trust's retention of \$1,000,000 per accident. The current retention is an increase from the \$600,000 retention in effect, as of the prior examination date of June 30, 2013.

Liability reinsurance is provided in an excess of loss agreement with ACE American Insurance Company. The agreement covers losses up to \$2,400,000 in excess of the Trust's retention of \$600,000 per occurrence. As of the prior examination date, the Trust had liability reinsurance coverage of \$2,500,000 in excess of a \$500,000 retention per occurrence.

Reinsurance for the health insurance segment is provided on both an individual and aggregate stop-loss basis through an agreement with Healthy Alliance Life Insurance Company (HALIC). HALIC is a subsidiary of Anthem Blue Cross and Blue Shield, which is the administrator of SLAIT's health insurance plan for members and enrollees. The reinsurance agreement covers all losses for an individual member that exceed the Trust's retention of \$300,000 per member, per year. The current retention is an increase from the \$225,000 retention in effect, as of the prior examination date of June 30, 2013. The agreement also covers aggregate losses that exceed a

calculated amount that is defined in the agreement terms. The aggregate coverage calculation is structured to cover any health insurance losses that exceed 125% of estimated losses per year.

The Trust 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.

ACCOUNTS AND RECORDS

Independent Accountants

The certified public accounting (CPA) firm, UHY, LLP, in St. Louis, Missouri, performed audits of the Trust's financial statements for all years of the examination period. UHY's workpapers for the audit of the June 30, 2018 financial statements were reviewed and used in the course of the examination as deemed appropriate.

External Actuary

The Trust's actuarial report, as of June 30, 2018, regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Christopher Walker, FCAS, MAAA, and Kazuko Minagawa Prock, ACAS, MAAA. Mr. Walker and Ms. Prock are employed by PricewaterhouseCoopers, LLP, in Chicago, Illinois.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by SLAIT with the Missouri Department of Commerce and Insurance and present the financial condition of the Trust for the period ending June 30, 2018. 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 Trust and noted in the workpapers for each individual financial statement item.

ASSETS
as of June 30, 2018

Bonds	\$ 2,194,240
Certificates of Deposit	5,884,300
Cash and Cash Equivalents	14,956,492
Accrued Interest Receivable	27,816
Members' Contributions Receivable	51,158
Amounts Recoverable from Reinsurers	<u>3,433,439</u>
TOTAL ASSETS	<u>\$26,547,445</u>

LIABILITIES AND MEMBERS' FUND BALANCE
as of June 30, 2018

Losses and Loss Adjustment Expenses	\$19,512,662
Surplus Distributions Payable	1,000,000
Advance Premium	649,166
Members' Contributions Refundable	155,850
Accounts Payable	456,284
Aggregate Excess Reserve	<u>1,000,000</u>
TOTAL LIABILITIES	\$22,773,962
MEMBERS' FUND BALANCE	<u>\$ 3,773,483</u>
TOTAL LIABILITIES AND MEMBERS' FUND BALANCE	<u>\$26,547,445</u>

STATEMENT OF REVENUES AND EXPENSES
For the Year Ended June 30, 2018

Member Contributions	\$34,361,299
Ceded Premiums	(2,148,474)
Investment Income	<u>330,298</u>
Total Revenues	\$32,543,123
Losses and Loss Adjustment Expenses	\$33,477,558
Surplus Distributions	1,000,000
Underwriting and Risk Management Expenses	1,629,703
Premium Taxes	103,894
Second Injury Fund Tax	680,467
General and Administrative Expenses	<u>229,550</u>
Total Expenses	\$37,121,172
REVENUES IN EXCESS OF EXPENSES	<u>(\$ 4,578,049)</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by St. Louis Area Insurance Trust and its administrator, The Daniel and Henry Company, during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

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

Sworn to and subscribed before me this 11th day of February, 2020.

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



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage 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 Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce
and Insurance