

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 South Central Education Insurance Trust 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, subsequent events, company history, corporate records, management and control, territory and plan of operation, growth of company, reinsurance, accounts and records, financial statements, comments on the financial statements, examination changes and general comments and/or recommendations.

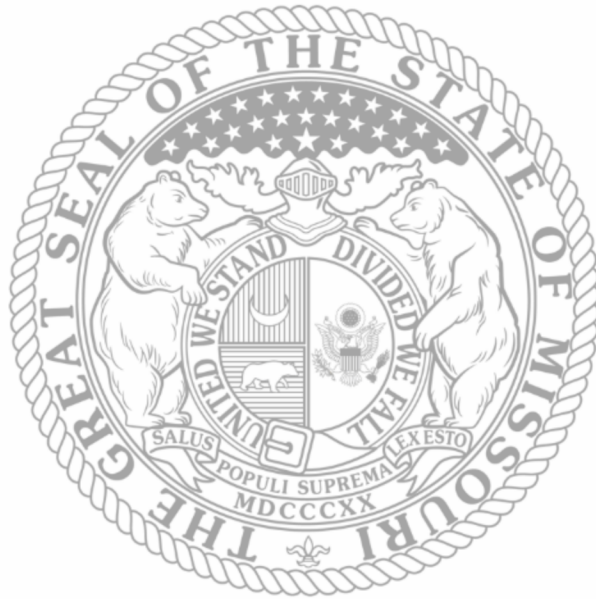
Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of South Central Education Insurance Trust as of June 30, 2020 be and is hereby ADOPTED as filed and for South Central Education Insurance Trust to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) 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 16th day of June, 2021.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF THE
FINANCIAL EXAMINATION OF

SOUTH CENTRAL EDUCATION INSURANCE TRUST

AS OF
JUNE 30, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, Missouri
May 6, 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

South Central Education Insurance Trust

hereinafter referred to as SCEIT or as the Company. Its administrative office is located at 308 North 21st Street, St. Louis, Missouri, 63103. This examination began on January 28, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of SCEIT. This is the first examination of SCEIT and covers the period of July 1, 2015, through June 30, 2020. This examination also included the material transactions or events occurring subsequent to June 30, 2020.

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

The Company did not have an external audit of the financial statements completed for the last three years of the examination period, as required by the Bylaws. The items in the succeeding paragraph likely would have been identified during an external audit conducted by a Certified Public Accounting (CPA) firm.

Examination changes were made to adjust three items in the June 30, 2020 financial statements. Adjustments were made to the following accounts: Premium Receivables, Prescription Rebates Receivable, and Administrative Fees Payable. The net examination change for all three adjustments resulted in a 6% increase to the reported net position (surplus), as of June 30, 2020.

SUBSEQUENT EVENTS

Effective June 30, 2020, eighteen of the twenty-two member school districts terminated membership in SCEIT. This was in addition to nine member school districts that exited, effective June 30, 2019. This significant loss of members is attributable to large assessments, as explained in the Dividends and Assessments section below.

The remaining four school districts, effective July 1, 2020, were Elsberry R-II, Festus R-VI, Hillsboro R-II, and St. Clair R-XIII. There were a combined total of 1,152 employees, as of July 1, 2020, insured by SCEIT for these four school districts, which is a 68% decrease from the total employee count for the twenty-two member school districts, as of the June 30, 2020 examination date.

COMPANY HISTORY

General

South Central Education Consortium (SCEC) began as an informal association in July 2008. SCEC pooled the risks of member school districts into a single large group that was fully insured by an unaffiliated insurance company.

South Central Education Insurance Trust was organized 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. School districts that had been members of the fully insured SCEC became members of SCEIT under a self-insured plan. SCEIT commenced business on July 1, 2015 with 35 member school districts. The Company currently operates under the SCEC brand name.

Dividends and Assessments

SCEIT's Articles of Association and Bylaws do not allow for any dividend payments. Distributions of funds are only allowed upon termination of the Company.

The Articles of Association and Bylaws have provisions for supplemental assessments, if approved by the Executive Board. Two supplemental assessments were approved in the examination period, as follows: May 2019 - \$2,477,298 and December 2019 - \$6,014,758. These assessments were necessary to address a negative net position (surplus) that resulted from significant losses incurred since the Company's inception.

Mergers and Acquisitions

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

CORPORATE RECORDS

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

The Articles of Association were amended on October 25, 2017, to revise Article VI regarding the calculation of the joining fees payable by new school districts and to add a subsection to Article VI to allow for a runout assessment to be charged to school districts that terminate membership in SCEIT. The Articles of Association were amended on November 14, 2018, to add a subsection to Article III to allow for the borrowing of money. The Articles of Association were amended on February 25, 2019, to revise or amend several articles to allow for a wellness program and the associated financial incentives.

The Bylaws were amended on the same three dates that are listed in the preceding paragraph for amendments to the Articles of Association. The revisions to the Bylaws for these amendments were generally to implement the same changes made in the amendments to the Articles of Association.

Section II of the Bylaws state that it is a responsibility of the Executive Board to annually appoint a CPA firm to perform a financial audit. The Company failed to have a financial audit completed for the fiscal years ending June 30, 2018, June 30, 2019, and June 30, 2020. Annual audits by a CPA firm are needed to ensure the accuracy of the financial statements and to identify any internal control deficiencies.

The minutes of the Board of Directors' meetings were reviewed for proper approval of corporate transactions.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in an Executive Board. Each member school district has one representative on the Executive Board, which has historically been the superintendent of each school district. The superintendents appointed to the Executive Board, as of June 30, 2020, were as follows:

<u>Superintendent</u>	<u>School District</u>	<u>Superintendent</u>	<u>School District</u>
Matthew Frederickson	Bowling Green R-I	Josh Hoener	New Haven
Tammy Lupardu	Charleston R-I	Lynne Reed	Newburg R-II
Kyle Gibbs	Crawford County R-I	Mark Harvey	Pike County R-III
Jon Earnhart	Crawford County R-II	Tara Lewis	Ralls County R-II
Tim Reller	Elsberry R-II	John McColloch	Salem R-80
Steve Voyles	Eminence R-I	Don Wakefield	South Iron County R-II
Nathan Holder	Festus R-VI	Paula King	So. Ralls County R-II
Jon Isaacson	Hillsboro R-III	Merlyn Johnson	St. James R-I
Cliff Johnston	Jefferson R-VII	Kyle Kruse	St. Clair R-XIII
Todd Smith	Louisiana R-II	Jenny Jacobs	State Tech. College
Michael Gray	Montgomery Co. R-II	Jana Thornsberry	Sullivan

Committees

The Bylaws do not provide for any committees of the Board of Directors.

Officers

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

<u>Officer</u>	<u>Position</u>
Kyle Kruse	President
Jenny Jacobs	Vice President
Steve Voyles	Secretary

Administrative Service Companies

SCEIT 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 significant service providers utilized, as of June 30, 2020:

- **USI Insurance Services, LLC (USI)** – A consulting firm that provides most of management and administrative for the daily operations of SCEIT. Compensation paid to USI is a monthly fee based upon a fixed rate per a Consulting Agreement multiplied by the total employee count from all school districts.
- **United HealthCare Services, Inc. (UHC)** – A benefit administrator that provides a network of medical providers for member enrollees. Additional services include claims handling, claims payment, customer service, case management, and pharmacy benefits. Pursuant to an Administrative Services Agreement, the Company pays UHC a monthly fee based upon a fixed rate per employee. SCEIT is a self-insured entity and therefore, the Company reimburses UHC for 100% of claims paid for member enrollees.
- **Clifton, Larson, Allen, LLP** – A CPA firm that provides accounting and financial statement preparation services.

TERRITORY AND PLAN OF OPERATION

As of June 30, 2020, the Company had 22 member school districts with 3,548 total employees that were located primarily in rural areas of Missouri. The largest member, Hillsboro R-III, accounted for 13% of total premiums for the 2019-2020 fiscal year.

Employees of USI perform underwriting reviews of school districts that apply for membership in SCEIT. New school districts that are approved by the Executive Board must pay entry fees based upon a percentage of first year premiums. School districts that terminate membership in the Company must pay exit fee assessments equal to a proportionate share of estimated claims runoff and administrative costs.

SCEIT's benefit administrator, UHC, offers various health care plans to the employees of member school districts. Plan options include preferred provider organization (PPO) plans and health savings account (HSA) plans. UHC pays claims directly to medical providers for services provided to enrollees. The Company has funds held in a UHC bank account that are used to pay claims. The Company makes weekly deposits to the UHC bank account to cover claim payments from the prior week and maintain an agreed upon minimum balance.

SCEIT 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	Earned Premiums
2015-16	35	\$27,615,452
2016-17	36	33,430,811
2017-18	30	30,610,726
2018-19	31	32,297,007
2019-20	22	27,840,205

As shown above, nine school districts exited the Company at the end of the 2018-19 fiscal year. The Subsequent Events section of this report describes an even larger number of schools that exited at the end of the 2019-20 fiscal year. Earned premiums are projected to be \$9.2 million for the 2020-21 fiscal year, which is a 67% decrease from the prior year.

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

As of Date	Net Position
June 30, 2016	\$(1,017,996)
June 30, 2017	(4,090,699)
June 30, 2018	(4,659,054)
June 30, 2019	(3,186,070)
June 30, 2020	2,662,006

The Company had net losses in each of the first three fiscal years due to high loss ratios that resulted in deficit net position (surplus) balances. The Executive Board approved supplemental assessments totaling \$8.5 million in the 2018-19 and 2019-20 fiscal years to address the deficit in the net position (surplus). Exit fee assessments of \$0.9 million and \$1.1 million were also charged to the school districts that terminated membership, effective June 30, 2019 and June 30, 2020, respectively.

The combination of the supplemental assessments and exit fee assessments returned the net position to a positive balance, as of the June 30, 2020 examination date. The Company would have had net losses in the last two fiscal years without the assessments of current members and exit fees of terminating members. However, the financial condition has greatly improved and management expects improved results with the much smaller level of pooled risks from the four remaining school districts.

REINSURANCE

Assumed

The Company does not assume any business.

Ceded

The Company obtains bids annually for reinsurance coverage on an individual risk and aggregate basis. Sun Life Assurance Company of Canada (Sun Life) has been the Company's reinsurer since July 1, 2018.

The policy with Sun Life, effective July 1, 2019 to June 30, 2020, covers 100% of losses in excess of a \$450,000 deductible on an individual basis. The same policy with Sun Life covers 100% of losses on an aggregate basis in excess of an attachment point. The attachment point is the greater of a specified dollar amount for the policy year or calculated deductible factors on a per member, per month basis. The Company lowered the individual deductible to \$250,000 for the Sun Life policy, effective July 1, 2020 to June 30, 2021.

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

Independent Accountants

The CPA firm, Botz, Deal & Company, P.C., in St. Louis, Missouri, performed audits of the Company's financial statements for the fiscal years ending June 30, 2016 and June 30, 2017. As of the date of this report, the Company has not had its financial statements audited for the last three fiscal years, including the final year of the examination period ending June 30, 2020.

External Actuary

The Company relies upon a financial analyst from its consulting firm, USI, to determine the estimate of Incurred But Not Reported (IBNR) loss reserves for medical and pharmacy claims. IBNR reserve estimates from an external, credentialed actuary are obtained periodically to determine exit fees for schools that terminate membership.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by SCEIT 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 and Short-Term Investments	\$4,806,518
Funds Held or on Deposit	521,790
Premiums Receivable (Note 1)	562,226
Member Assessments Receivable	213,361
Prescription Rebates Receivable (Note 2)	157,833
Reinsurance Recoverables	<u>269,661</u>
TOTAL ASSETS	<u>\$6,531,389</u>

LIABILITIES AND NET POSITION
as of June 30, 2020

Claims Reserves	\$2,609,000
Advance Premiums	426,499
Consulting Fees Payable (Note 3)	145,968
Loan Payable	528,847
Accounts Payable and Accrued Expenses	<u>159,069</u>
TOTAL LIABILITIES	<u>\$3,869,383</u>
NET POSITION (SURPLUS)	<u>\$2,662,006</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$6,531,389</u>

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

Premiums	\$27,840,205
Ceded Premiums	(828,896)
Prescription Rebates	1,600,447
Member Assessments	<u>6,959,282</u>
Total Revenues	\$35,571,038
Claims Incurred	\$28,007,404
Ceded Losses	(1,299,039)
Administrative Fees	2,444,742
General and Administrative Expenses	<u>484,618</u>
Total Expenses	\$29,637,725
NET OPERATING INCOME	<u>\$ 5,933,313</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS**Note 1 – Premiums Receivable**

As of June 30, 2020, there were premiums receivable totaling \$427,384 from five school districts that have exited the Company. As of April 2021, all of these receivables had been uncollected for at least nine months and over one year in some instances. An examination change was made to non-admit the reported premiums receivable by \$427,384. The Company should write-off these uncollectible amounts in the financial statements.

Note 2 – Prescription Rebates Receivable

The Company did not fully accrue receivables for prescription drug rebates from UHC that had been earned, as of June 30, 2020. The rebates receivable of \$157,833 that were accrued, as of June 30, 2020, only included the payment to be received in July 2020. However, most of the prescription drug rebates earned for 1st quarter 2020 and 2nd quarter 2020 were not received from UHC until after June 30, 2020. An examination change was made to increase the rebate receivable by \$788,319 for payments received in October 2020 and January 2021 that had been earned prior to June 30, 2020.

The Company should develop a methodology to fully estimate rebates that have been earned but not received 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 received from UHC.

Note 3 – Consulting Fees Payable

The Company pays monthly fees to UHC, pursuant to an Administrative Services Agreement. The Company only accrued a portion of the fees payable to UHC, as of June 30, 2020, for services provided in June 2020. Total administrative fees of \$341,030 were paid to UHC in July 2020 for services provided in June 2020. However, the Company had only accrued a liability of \$145,968 for these administrative fees, which resulted in an under accrual of \$195,062. An examination change was made to adjust the Consulting Fees Payable to the full incurred amount.

The Company should ensure that administrative fees incurred but not paid until the following month are properly accrued as liabilities at each month end.

EXAMINATION CHANGES

Reported Net Position (Surplus) at June 30, 2020			\$2,662,006
	<u>Increase</u>	<u>Decrease</u>	
Premiums Receivable		\$427,384	
Prescription Rebates Receivable	\$788,319		
Consulting Fees Payable		195,062	
Net Increase (Decrease)			<u>165,873</u>
Adjusted Net Position (Surplus) at June 30, 2020			<u>\$2,827,879</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS**External Audits (page 2)**

The Executive Board should take actions to ensure that annual audits of financial statements are completed to comply with the Bylaws requirement.

Examination Changes (pages 10 and 11)

Management should ensure that premium receivables from member school districts are closely monitored for collection. Any receivables that are significantly past due (90 days or more) should be evaluated and written off on a timely basis, if it is determined that collection is unlikely.

Management should also ensure that adequate accruals are made on a monthly basis for any receivable that has been earned, but not received, and any liability that has been incurred, but not paid.

ACKNOWLEDGMENT

The assistance and cooperation extended by South Central Education Insurance Trust and its administrator, USI Insurance Services, LLC, during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
)
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 South Central Education 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 27th day of May, 2021.

My commission expires: March 30, 2023 *Hailey Jullitt*
Notary Public



HAILEY JULLITT
My Commission Expires
March 30, 2023
Osage County
Commission #18834368

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