

Report on the Examination
As of June 30, 2016
of
Vermont Education Health Initiative, Inc.
by the
Vermont Department of Financial Regulation
Division of Insurance



State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

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Tracy Wrend
Chair of the Board
52 Pike Drive
Berlin, VT 05602

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574(c), I order that the Report on the Examination of Vermont Education Health Initiative, Inc. for the year ending June 30, 2016 is adopted.

Vermont Education Health Initiative, Inc. may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.



Michael S. Pieciak, Commissioner

12/20/17

Date



**VERMONT EDUCATION HEALTH INITIATIVE
EXAMINATION REPORT
AS OF JUNE 30, 2016**

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December 6, 2017

Michael S. Pieciak, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the November 23, 2016 examination order, the Insurance Division's financial examination team has conducted an examination of:

Vermont Education Health Initiative, Inc.
with their statutory home offices located at
52 Pike Drive
Berlin, VT 05602

The examination was performed pursuant to 8 V.S.A. §3563 and Regulation I-90-1, in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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**VERMONT EDUCATION HEALTH INITIATIVE
EXAMINATION REPORT
AS OF JUNE 30, 2016**

SCOPE OF EXAMINATION

As of June 30, 2016, the financial examination of the Vermont Education Health Initiative, Inc. (VEHI or the Company) was performed. This is the Company's first financial condition examination. The examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation (Department).

The examination was conducted pursuant to 8 V.S.A. §3563 and Regulation I-90-1, and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from July 1, 2014 through June 30, 2016. As of June 7, 2013, VEHI was approved as an Intermunicipal Insurance Association and subject to Regulation I-90-1. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of VEHI and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause VEHI's net position to be materially misstated both currently and prospectively.

All accounts and activities of VEHI were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the examination, the impact of such adjustment will be documented separately following VEHI's financial statements.

This examination report includes significant findings of fact, as mentioned in 8 V.S.A. §3574 and general information about VEHI and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions,

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proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or VEHI.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the current exam report. There were no adjustments made to the financial statements based on this examination.

HISTORY

VEHI was formed in 1996 by the Vermont National Education Association (VT NEA) and the Vermont School Boards Insurance Trust, Inc. (VSBIT) and provides health coverage and other related coverages to schools and related organizations. Membership in VEHI is limited to municipal school districts and their instrumentalities and agencies. Organizations joining VEHI are required to remain a member for a minimum of one year. VEHI is owned by member school districts and is under the supervision of a Board of Directors consisting of five members from either a School Board, a Superintendent, or a School Business Official, and, as of June 30, 2016 two staff or directors of the VT NEA. VEHI currently provides health coverage to 276 schools and related organizations and dental coverage to 194 schools and related organizations.

MANAGEMENT AND CONTROL

Corporate Records

VEHI's statutory home office is located in Berlin, Vermont, and VEHI maintains its corporate records in this location. Examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support VEHI's transactions and events and that the meetings and minutes are in compliance with VEHI's articles and By-Laws.

Members

The By-Laws state that membership is limited to those school districts, supervisory unions and education-related organizations which are eligible to participate in the intermunicipal agreement. The annual meeting of Members is held for the purpose of electing Directors and for the

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transaction of business that comes before the meeting. At any meeting a total of five members, represented in person or by proxy, constitutes a quorum.

Board of Directors

The By-Laws, as of June 30, 2016 indicate that the Board of Directors consists of five individuals, three from either a school board, a superintendent, or a business manager and two from the VT NEA. Terms for all positions are set at six years. Meetings of the Board takes place annually, monthly or as necessary, and a majority of the Directors present constitutes a quorum for the transaction of business.

The following individuals were elected to the Board of Directors of the Company in accordance with the By-Laws and serving as of June 30, 2016:

<u>Name and Principal Business Association:</u>	<u>Residence:</u>
Martha Allen VT NEA	Vermont
Joel Cook VT NEA	Vermont
Elizabeth Fitzgerald South Burlington School Board	Vermont
Martha Gagner Franklin Central Supervisory Union	Vermont
Tracy Wrend Lamoille South Supervisory Union	Vermont

Officers

The Company's By-Laws state that the Officers will be a Chair and Vice-Chair, and other Officers and Assistant Officers will be elected as necessary. Corporate Officers will be a President, Secretary and other Officers and Assistant Officers will be appointed as necessary.

The Officers of the Company as of June 30, 2016 were as follows:

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<u>Name</u>	<u>Title</u>
Tracy Wrend	Chair
Joel Cook	Vice Chair
Laura Soares	President
Martha Gagner	Secretary

Affiliated Companies

The Company is managed jointly by VSBIT and the VT NEA. The Company contracts with VSBIT to provide wellness, administrative and financial services. The Company contracts with the VT NEA to provide administrative and employee education services. The Company also contracts with BCBS of Vermont, Northeast Delta Dental, Gallagher Benefits Services and Lincoln Financial Group for services related to health coverage, dental coverage and support for a long-term disability life insurance program.

TERRITORY AND PLAN OF OPERATIONS

The Company offers high quality employee benefit options (including fully insured health, dental and sponsorship of a long-term disability insurance program) and related services to its members. VEHI plays an active role in all areas of health care and related benefit plan design, financing, marketing, risk management, wellness consumer education and customer service. VEHI also provides health coverage benefits to retired teachers and their dependents through the Vermont Teachers Retirement System.

REINSURANCE

The Company obtains stop loss coverage for the health program. Coverage for individual stop loss was \$700,000 and aggregate stop loss was 120% of the expected claims on an annual basis as of June 30, 2016.

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FINANCIAL STATEMENTS

The following financial statements filed by the Company with the Department presents the financial condition of the Company as of June 30, 2016, in accordance with generally accepted accounting principles (GAAP).

Statement of Net Position

Assets:

Cash	\$ 478,456
Investments	52,867,181
Accrued interest receivable	85,723
Contribution receivable	2,400,000
Working fund deposit	4,985,109
Other receivables	67,051
Prepaid expenses	<u>22,380</u>
 Total assets	 <u><u>\$ 60,905,900</u></u>

Liabilities:

Accounts payable	\$ 360,062
Assessments payable	669,199
Unearned revenue	2,193,788
Claims payable	16,221,475
Reserve for unallocated loss adjustment expenses	<u>5,875</u>
 Total liabilities	 <u>19,450,399</u>

Net Position:

Unrestricted net position	<u>41,455,501</u>
 Total net position	 <u>41,455,501</u>
 Total liabilities and net position	 <u><u>\$ 60,905,900</u></u>

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Statement of Revenues, Expenses and Changes in Net Position

<u>Operating revenues:</u>	
Health contributions	\$ 277,686,297
Dental contributions	7,164,912
Value payment revenue	756,356
Administrative performance revenue	<u>3,500</u>
 Total operating revenues	 <u>285,611,065</u>
<u>Operating expenses:</u>	
Net change in health claims paid and reserved	242,488,800
Net change in dental claims paid and reserved	6,102,781
Reinsurance and administration - health	16,461,857
Capitation - health	3,442,794
Assessments	5,844,687
Program administration - dental	582,943
General and administrative expenses	1,911,911
Wellness grants and expenses	<u>1,852,337</u>
 Total operating expenses	 <u>278,688,110</u>
 Net operating income	 <u>6,922,955</u>
<u>Non-operating revenues (expenses):</u>	
Investment income	701,826
Investment fees	<u>(7,452)</u>
 Total non-operating revenues (expenses)	 <u>694,374</u>
 Change in net position	 7,617,329
 Net position - beginning of year	 <u>33,838,172</u>
 Net position - end of year	 <u>\$ 41,455,501</u>

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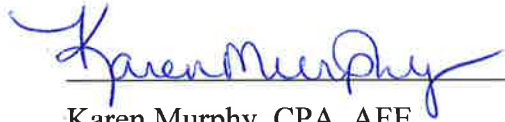
COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

CONCLUSION

In addition to the undersigned, Jesse Lussier, Administrative Insurance Examiner, Miranda Cloutier, Examiner in Charge, and KC Ng, Examiner, participated in this examination. We wish to express our appreciation to the Directors and Management for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Murphy, CPA, AFE
Director of Company Licensing and Examinations -
Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 20th day of December, 2017


Notary Public