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JUL 13 2009

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Department of Insurance
State of Idaho

Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:)

GOVERNMENT EMPLOYEES MEDICAL PLAN)

Idaho Department of Insurance Registration No.: 3823)

) ORDER ADOPTING REPORT
) OF EXAMINATION AS OF
) DECEMBER 31, 2008

) Docket No. 18-2549-09
)
)
)
)
)

The above-entitled matter having come before the Director of the Idaho Department of Insurance and upon careful review the Director does hereby make these findings with regard to the *Government Employees Medical Plan* (GemPlan or Plan):

1. The Report of Examination as of December 31, 2008 (Report) of the GemPlan was completed by examiners from the Idaho Department of Insurance (Department) and signed the 19th day of May 2009 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) report was filed with the Department on

May 19, 2009. A copy of the Report was transmitted electronically via email to the Plan on May 19, 2009, and resent on June 1, 2009. Another copy of the Report (including a minor non-substantive correction) was subsequently transmitted electronically via email to the Plan on June 23, 2009. The final Report identical to the version sent to the Plan on June 23, 2009, and bearing the May 19, 2009 verification, is attached hereto and incorporated herein in full and identified as "Exhibit A."

2. WAIVER. Attached hereto and incorporated herein in full and identified as "Exhibit B," is a Waiver signed by Mr. Todd M. Lakey, Acting Executive Director on June 30, 2009 and received via email by the Department on June 30, 2009. The Plan has waived its rights to make further recommendations, to request a hearing, to seek reconsideration and to seek judicial review. In accordance with said Waiver, and in consideration that the Plan has had four (4) weeks to recommend corrections or changes to the report (in accordance with § 41-4113(3), Idaho Code), a final Order is entered herein.
3. RESPONSE. Attached hereto and incorporated herein in full and identified as "Exhibit C," is the Plan's written submission (as provided for under § 41-227(5), Idaho Code) containing responses to the examination report in a letter signed by Mr. Lakey dated June 30, 2009 and received via email by the Department on July 2, 2009. The GemPlan requested that the written submission become a public record of the Department.
4. ORDER.

Based on the findings herein, good cause appearing therefor, and in consideration of the premises;

IT IS HEREBY ORDERED the above-described report identified herein as “Exhibit A” which includes the findings, conclusions, comments and recommendations supporting this Order, is hereby ADOPTED as the final examination report and as an official record of the Department under §§ 41-227(5)(a) and 41-4113(3), Idaho Code.

DATED and EFFECTIVE at Boise, Idaho this 3rd day of July 2009.



William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 13TH day of July 2009, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Todd M. Lakey, Acting Executive Director	<input checked="" type="checkbox"/>	certified mail
Government Employees Medical Plan	<input type="checkbox"/>	first class mail
C/O Rose Law Group	<input type="checkbox"/>	hand delivery
6223 N. Discovery Way, Suite 200	<input type="checkbox"/>	Facsimile
Boise, ID 83713		
TLakey@roselawgroup.com	<input checked="" type="checkbox"/>	e-mail

Ms. Barbara Steele, General Manager	<input checked="" type="checkbox"/>	certified mail
Government Employees Medical Plan	<input type="checkbox"/>	first class mail
C/O Mutual Insurance Associates, Inc.	<input type="checkbox"/>	
1575 Baldy Ave.	<input type="checkbox"/>	hand delivery
Pocatello, Idaho 83201	<input type="checkbox"/>	facsimile
BarbaraS@mutalid.com	<input checked="" type="checkbox"/>	e-mail

Georgia Siehl, CPA, CFE	<input type="checkbox"/>	certified mail
Bureau Chief / Chief Examiner	<input type="checkbox"/>	first class mail
Idaho Department of Insurance	<input checked="" type="checkbox"/>	hand delivery
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Georgia.Siehl@doi.idaho.gov	<input checked="" type="checkbox"/>	e-mail



William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

Government Employees Medical Plan
(a joint public agency self-funded health care plan)

as of

December 31, 2008

EXHIBIT

A

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State of Idaho

DEPARTMENT OF INSURANCE

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WILLIAM W. DEAL
Director

Boise, Idaho
May 19, 2009

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Sections 41-219(1) and 41-4113(1), Idaho Code, we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

Government Employees Medical Plan
1575 Baldy Avenue
Pocatello, Idaho 83201

hereinafter referred to as the "GemPlan" at its offices in Pocatello, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period from September 25, 2007, date of Certificate of Registration issued, through December 31, 2008, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Sections 41-219(1) and 41-4113, Idaho Code. Verification and valuation of assets, liabilities, and net assets (or surplus) and an analysis and review of such other accounts and records as appropriate to the examination were also performed. There was some reliance upon the independent auditor's and the consulting actuary's work in this examination.

A letter of representation attesting to the GemPlan's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from the GemPlan's general manager.

PRIOR EXAMINATION

As noted under *HISTORY AND DESCRIPTION*, the GemPlan was registered as a joint public agency self-funded health care plan under Title 41, Chapter 41, Idaho Code, effective September 25, 2007. This is the first comprehensive examination of the GemPlan since the registration process.

HISTORY AND DESCRIPTION

Effective July 1, 2001, Title 41, Chapter 40, Idaho Code exempted self-funded counties from regulation. The Idaho Association of Counties, in conjunction with Mutual Insurance Associates (MIA), the current GemPlan general manager, formed an investigative committee to research alternative health care programs for counties. In 2003, the Idaho Department of Insurance acknowledged that counties could join together to form a self-funded plan(s), that would be exempt from registration under Title 41, Chapter 40, Idaho Code, as long as it consisted of only counties. During 2002, County commissioners from several counties approved and signed joint powers agreements (JPA) in accordance with Title 67, Chapter 23, Idaho Code, and executed trust agreements with the GemPlan. This process created the GemPlan as a joint public agency self funded plan, governed by a board of elected public officials. In 2003, the GemPlan's board of trustees adopted bylaws and finalized arrangements with Corporate Benefit Services of America (CBSA) to act as a third party claims administrator (TPA) and to retain MIA as its general manager. In 2004, the GemPlan started operation with five subscriber counties with less than 400 employees. As of the date of this examination, the GemPlan has a total of 20 subscriber counties, which includes approximately 4,000 employees. Effective October 1, 2006, the GemPlan retained Blue Cross of Idaho Health Services, Inc. as its TPA. Also in 2006, the Idaho State Legislature passed legislation creating new statutory guidance to specifically regulate joint public agency self-funded health care plans. Therefore, as of the date of this examination, the GemPlan is principally regulated through Title 41,

Chapter 41, Idaho Code. On September 25, 2007, the Idaho Department of Insurance issued the GemPlan's certificate of registration, as provided for under Section 41-4106, Idaho Code.

MANAGEMENT AND CONTROL

Pursuant to Sections 67-2326 through 67-2333, Idaho Code, each of the 20 participating counties have executed joint powers agreements and trust agreements with the GemPlan. Under these agreements, the GemPlan delegates management of the GemPlan to a board of trustees comprised of up to thirteen elected public officials. At December 31, 2008, the board of trustees was comprised of seven members listed as follow:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Ron Smith, Chair 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Boundary County
Wayne Brower, Vice Chair* 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Bingham County
Stan Leach 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Clearwater County
William Brown 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Adams County
Duane Smith 1575 Baldy Avenue Pocatello, Idaho 83201	County Clerk Minidoka County
Ken Estep 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Power County
Seth Beal 1575 Baldy Avenue Pocatello, Idaho 83201	County Commissioner Butte County

* Wayne Brower was replaced by Cleone Jolly, a Bingham County Commissioner in January, 2009

Under a general manager agreement between the GemPlan and Mutual Insurance Associates, Inc. (MIA), MIA agrees, under the direction of the board of trustees, to manage the day-to-day business functions of the GemPlan. Ms. Barbara Steele is the owner of MIA who is responsible to manage the affairs of the GemPlan.

Conflict of Interest

During the course of the examination, it was noted that the GemPlan did not require individual Trustees and/or administrators or consultants to execute annual Conflict of Interest statements. In keeping with the fiduciary standards of care required by a trustee, administrator, manager or consultant as prescribed by Title 68, Idaho Code, and the prohibited pecuniary interest statute found in § 41-4115, Idaho Code, it would be appropriate for the individual trustees, administrators and consultants to execute annual Conflict of Interest disclosure statements. Some of the fiduciary standards of care Title 68, Idaho Code requires of a trustee(s), administrator, manager or consultant include:

1. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. [emphasis added - see 68-502, IC]
2. Loyalty - A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries. [emphasis added - see 68-505 IC]
3. Prudent investor rule. [TRUSTEE] owes a duty to the beneficiaries of the trust to comply with the prudent investor rule set forth in this act. [see item No.1 above and § 68-501, IC]

Additionally, Title 41, Chapter 41, Idaho Code (see § 41-4121 - Other Provisions Applicable) specifically adopts language in Title 41, Chapter 2, Idaho Code, which applies the standards and procedures of the NAIC's *Financial Condition Examiners Handbook*. The significance of this is that the *Financial Condition Examiners Handbook* contemplates the existence and use of Conflict of Interest statements by an insurance organization. Therefore, in order for the GemPlan to document its compliance with Title 68, Idaho Code, § 41-4115, Idaho Code, as well as § 41-223(1), Idaho Code, it is recommended that the GemPlan adopt and require annual execution of Conflict of Interest Statements by all Trustees, administrators and consultants.

Contracts and Agreements

The GemPlan had the following agreements in effect at December 31, 2008:

Joint Powers Agreements

Each of the 20 participating counties executed a joint powers agreement (JPA) with the GemPlan pursuant to the provisions of Sections 67-2326 through 67-2333, Idaho Code relating to the joint exercise of powers among political subdivisions of the State of Idaho for the purpose of operating a separate legal entity to be known as the Government Employees Medical Plan (GemPlan). As discussed earlier, the GemPlan is a joint public agency self-funded health care plan, organized pursuant to Title 41, Chapter 41, Idaho Code. This agreement (the JPA) provides a general description of how the GemPlan is organized and its operational structure.

Trust Agreements

Each participating county has previously entered into a trust agreement with the board of trustees of the GemPlan. In these agreements, the trustees accept the trusteeship and declare that they will receive and hold trust fund assets as trustees in accordance with the trust provisions stated in the Joint Powers Agreements. Bannock County is considered as a “large” member with approximately 369 employees for the year-ended December 31, 2008. Bannock County is considered to be self-insured since it pays its actual claims expenses plus other fees including administrative expenses to the GemPlan. There is no expense reimbursement agreement between Bannock County and the GemPlan. It is recommended the GemPlan enter into an expense reimbursement agreement with Bannock County stating the amounts and types of expenses that would be reimbursed by the county and when those expenses will be reimbursed.

General Manager Agreement

Effective October 1, 2003, the GemPlan entered into a general manger agreement with Mutual Insurance Associates, Inc. (MIA). In this agreement, MIA agrees to manage the day to day business functions of the GemPlan. In return, the GemPlan agrees to pay 5% of the contributions received from counties to the general manager as compensation for services. During the examination’s review of this agreement, we noted the following items that the GemPlan may want to consider clarifying and/or revising:

1. Under section 1.3-general manager compensation, it states that the fees shall be calculated as 5% of the aggregate of the contributions (claim expenses) and expense payment and is “in addition” to that aggregate amount [emphasis added]. In actual practice, the calculation and payment of the commission is somewhat ambiguous. It appears that the actual fee paid to the general manager is typically included as a portion of the amount remitted by the counties to the general manager, rather than as 5% “in addition to the aggregate amount.” Bannock County, however, pays a fee of \$17 per employee per month. It is recommended that the manager’s fee be calculated so as to conform to the agreement, or that the agreement be amended to conform with actual practice.

2. Under section 1.4-general manager expenses, it states that general manager shall pay, assume the obligation for, and be fully responsible for all costs and expenses associated with and in respect to the performance of General Manager under this agreement. It was noted that the general manager has paid all GemPlan's expenses except for administration fees paid to GemPlan's third party administrator, Blue Cross of Idaho Health Services, Inc. (BCI). These expenses included the CPA audit fee, actuarial fee, fees paid to the service representatives under the service representative agreements described below and the royalty fees paid to the Idaho Association of Counties under the royalty agreement described below. It is recommended that the GemPlan amend this agreement to reflect the specific expenses to be paid by the general manager.
3. It is recommended that the GemPlan amend the agreement to reference Title 41, Chapter 41, instead of Title 41, Chapter 40 (since the GemPlan is currently regulated under Chapter 41).
4. It was also noted during the examination that the general manager "discounted" or deferred collection of \$566,234 of management fees from the GemPlan during the years 2004-2006. The examination has determined that these amounts constitute a contingent liability for the GemPlan that should be accrued as of December 31, 2008. See the NOTES TO FINANCIAL STATEMENT section of this report for additional discussion.

Administrative Services Agreement

The GemPlan entered into an administrative services agreement with BCI effective October 1, 2006. In this agreement, BCI agrees to provide general administrative services and benefit payment services to the GemPlan. In return, the GemPlan agrees to pay BCI a monthly administrative fee based on per employee per month. As of the year-ended December 31, 2008, the fee paid to BCI was \$39.15 per employee per month. Additionally, BCI charged the GemPlan a service fee (5% APR) for financing or deferring reimbursements of claims to BCI. Typically, the GemPlan will be invoiced for weekly claims payments made by BCI and the Plan will then reimburse BCI approximately 30 days later.

In this contract, BCI also agrees to provide Specific Excess Loss Coverage to each GemPlan member. The GemPlan has responsibility to pay benefits up to the Specific Excess Loss Amount of \$125,000. Thereafter, BCI has responsibility to pay for any claims exceeding this amount. At December 31, 2008, the specific excess loss fee paid to BCI was \$38.40 per employee per month. There is a lifetime maximum of \$2,000,000 per member.

Additionally, Aggregate Excess Loss Coverage is also provided in exchange for the aggregate excess loss premium set forth in this agreement. BCI agrees to refund the amount of benefits for covered services which exceed the aggregate excess loss amount. The aggregate excess loss amount is calculated as follows:

Aggregate Excess Loss Amount = Sum of Aggregate Excess Loss Factor(s) times
Number of enrollees for each month of agreement period (1 year).

Royalty Agreement

The GemPlan entered into a royalty agreement with the Idaho Association of Counties (IAC) on January 1, 2007. In this agreement, IAC agreed to endorse the GemPlan's health care program. It also agreed to allow GemPlan to use its name, logos and other valuable consideration to endorse GemPlan's health care program. In return, the GemPlan agreed to pay the following royalty payments to IAC: \$25,000 in 2007, \$25,000 in 2008, \$50,000 in 2009, \$75,000 in 2010, \$100,000 in 2011, \$125,000 in 2012, \$150,000 in 2013, \$150,000 plus one percent of the reserves retained by the GemPlan in 2014 and each year thereafter. Although the contract was between the GemPlan and IAC, it was noted that GemPlan's general manager, MIA, made the IAC royalty payments, rather than the GemPlan for years ended 2007 and 2008. Because there is privity of contract between IAC and the GemPlan, the total amount of \$50,000 royalty payments made by MIA in 2007 and 2008 may be considered to be a constructive loan by MIA to the GemPlan. Therefore, this may be in violation of the loan provision of Section 41-4115(3), Idaho Code, which states as follows:

No board member, administrator, or other person having responsibility for the management of a joint public agency self-funded plan or the investment or other handling of plan funds shall have any direct or indirect material pecuniary interest in any loan...[emphasis added]

It is recommended that the GemPlan's general manager (MIA) execute a memorandum of understanding waiving the right to collect the \$50,000 of royalty payments it made on behalf of the GemPlan in 2007 and 2008, thereby relieving it (MIA) of its creditor status which appears to violate Section 41-4115(3), Idaho Code.

If MIA and the GemPlan jointly desire MIA to continue making future royalty payments on behalf of the GemPlan, the parties may want to amend the management agreement to specify that the general manager is to make this payment in consideration of/for the management fee paid to the general manager. It also appears, however, that unless the original GemPlan/IAC contract is modified, IAC will always have direct (primary) recourse against the GemPlan for non-payment of the fee.

The examination financial statements have been adjusted to give effect to the \$50,000 constructive loan, where MIA becomes a creditor of the GemPlan. Please see the NOTES TO FINANCIAL STATEMENTS section of the report for detail regarding this adjustment.

Service Representative Agreements

GemPlan's general manager, Mutual Insurance Associates, Inc. (MIA) entered into a service representative agreement with a representative in each of the following nine participating counties: Lemhi, Boundary, Washington, Lincoln, Bingham, Boise, Gem, Caribou, and Clearwater. In each of these nine agreements, the service representative agreed to assist in providing the following services to member entities and prospective entities: 1) enrolling of beneficiaries; 2) conducting employee meetings; 3) presenting benefit summaries and other pertinent information; and 4) performing other duties from time-to-time as mutually agreed

upon between service representative and general manager. In return, the general manager agreed to pay 20% of the general manager's overall 5% administrative fee (received from each of the counties) to the service representatives.

CORPORATE RECORDS

Joint Powers Agreement, Trust Agreement and Bylaws

The original Joint Powers Agreement, Trust Agreement and Bylaws were approved by the board of trustees and were subsequently approved by the Department of Insurance through the registration process effective September 25, 2007. Subsequent revisions of the Joint Powers Agreement and Trust Agreement were approved by the board of trustees on March 12, 2009. The general manager of the GemPlan stated that there will be further revisions of the Joint Powers Agreement and Trust Agreement. As of the end of examination fieldwork, however, none of the aforementioned revisions had been filed with the Idaho Department of Insurance. It is, therefore, recommended that any newly Board approved and executed revisions of the Joint Powers Agreement, Trust Agreement and Bylaws be promptly filed with the Idaho Department of Insurance.

Minutes of Meetings

A review of the minutes of the meetings of the Board of Trustees for the period October 1, 2007 through December 31, 2008, and subsequent thereto, indicated compliance with the Joint Powers Agreement, Trust Agreement and By-laws with respect to the board meeting dates and the election of trustees.

This review of the minutes also indicated that a quorum was present at all board of trustees meetings held during the examination period and that significant transactions and activities were properly authorized.

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FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the GemPlan was maintained through the period under examination. Coverages in effect as of December 31, 2008 included property, general liability and a dishonesty insurance policy.

The dishonesty insurance policy met the maximum coverage specified in Section 41-4114 (3), Idaho Code.

The insurance company providing coverage to the GemPlan was licensed or otherwise authorized in the State of Idaho.

TERRITORY AND PLAN OF OPERATION

As previously reported, the GemPlan was registered with the Idaho Department of Insurance as a joint public agency self-funded health care plan on September 25, 2007. In this connection, Certificate of Registration Number 3823 was granted to the GemPlan to transact business in the State of Idaho. Operations of the GemPlan are performed at the general manager's office at Pocatello, Idaho.

During the period under examination, the following counties participated in the GemPlan: Adams, Bannock, Bear Lake, Bingham, Boise, Boundary, Butte, Caribou, Clark, Clearwater, Custer, Gem, Lemhi, Lincoln, Minidoka, Owyhee, Payette, Power, Valley, and Washington.

Bannock County is a self-funded large county and it self-insured itself.

GROWTH OF THE GEMPLAN

The GemPlan's growth for the years indicated, as taken from the audited financial statements for the years 2007 and 2008, is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets/Surplus</u> (deficit)	<u>Change in</u> <u>Net Asset/Surplus</u>
2007	\$ 2,169,148	\$ 3,651,285	\$ (1,482,137)	\$ 1,203,556
2008*	\$ 3,346,383	\$ 5,192,813	\$ (1,846,430)	\$ (364,293)

*As determined by Examination.

REINSURANCE

As discussed in detail earlier in this report under the section titled “*Administrative Services Agreement*,” the GemPlan has contracted with Blue Cross of Idaho Health Services, Inc. (BCI) to provide specific excess loss coverage and aggregate excess loss coverage.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The GemPlan provides optional health care benefits to public officials and public employees as well as their dependents for the 20 member counties. Coverage is provided for all eligible permanent employees. Early retiree coverage is available if employees terminate and if they are at least 55 years old and have been with the same county for at least 20 years. Elected officials have to be with the same county for at least five years and there is no age requirement. This coverage is voluntary, and the ex-employee can choose COBRA or early retiree coverage.

GemPlan’s benefit period is January 1st through December 31st; however, its contract year with the third party claims administrator, BCI, is the same as the counties’ fiscal year, which is October 1st through September 30th.

Waiting periods vary by county and are outlined in each county’s Schedule of Benefits.

GemPlan offers a Traditional Plan and a PPO Plan for medical benefits. Currently there is one county (Adams County) that has a traditional plan. The remainder of the counties participate in PPO Plans. In addition to medical benefits, GemPlan also offers dental, vision and Employee Assistance Program (EAP) coverage, as well as group life insurance. Not all counties are enrolled in dental, vision and EAP coverage; however, all counties are enrolled in group life insurance.

Deductibles, coinsurance, co-pays and out of pocket limits as well as drug co-pays vary from county to county.

Funding for benefits varies by county. All counties fully fund all benefits for active employees. Some counties fully fund all benefits for dependents. Some counties partially fund benefits for dependents and some counties do not fund any benefits for dependents. None of the counties fund any contributions for early retirees or COBRA participants.

Treatment of Policyholders

Claims

As previously reported, BCI administers claims on behalf of the GemPlan under an administrative services agreement. It was noted that the GemPlan did not have access to the providers' bills received and paid by BCI. It was also noted that GemPlan has not performed an audit of the health benefits documentation maintained by BCI. It is recommended that the GemPlan, through its appointed external auditor/CPA, periodically perform a sample review of the underlying claims data/records maintained by the TPA.

Complaints

The GemPlan offered to its members an inquiry and appeals procedure. In this regard, the GemPlan's general manager has maintained a phone log which records inquiries and complaints received from providers and its members in compliance with Section 41-1330, Idaho Code. Documentation related to the appeals to the Board of Trustees was also maintained by the GemPlan. BCI, as third party administrator, also maintains grievance records on behalf of its clients, including the GemPlan.

Privacy Practices

The GemPlan maintains privacy practices set forth under the federal Health Insurance Portability and Accountability Act (HIPAA). The policy describes procedures used by the GemPlan's group health Plan to protect the privacy of employees and family members covered by the GemPlan.

ACCOUNTS AND RECORDS

General Accounting

The GemPlan's accounting records and financial reports are produced and maintained by its general manager's accounting and information systems.

During the examination's review of the GemPlan's 2008 general ledger, it was noted that some of the general ledger balances were not in agreement with the 2008 audited financial statements. This was due to the fact that some year-end 2008 adjusting entries were not entered/booked to the general ledger. It is recommended that the general manager post all year-end adjusting/audit entries to the general ledger.

Independent Accountants

The annual independent audits of the GemPlan for the years 2007 and 2008 were performed by Rudd & Company, CPA's, Rexburg, Idaho. The audited financial statements were reported on a full-accrual, generally accepted accounting principles (GAAP) basis. There was some reliance on the 2008 audit report and workpapers in this examination of the GemPlan.

Actuarial Opinion

The actuarial certification for the liability for incurred but not reported (IBNR) health claims was prepared by Carlton Harker, FSA, MAAA, of Actuarial Work-Products, Inc., Winston-Salem, North Carolina for 2007 and 2008.

The December 31, 2008 statement of actuarial certification stated that the reserves were computed in accordance with commonly accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles.

The claim reserve (IBNR) indicated by the actuarial certification as of December 31, 2008 was \$1,143,595. This amount agreed to the IBNR reserve presented in the 2008 CPA's report. However, the Department's examining actuary determined that the IBNR claim reserve was deficient as of December 31, 2008. For a detailed discussion of the results of the Department's actuarial review of the adequacy of the IBNR claims reserve, please see the NOTES TO FINANCIAL STATEMENTS section later in this report.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Net Assets/Surplus as of December 31, 2008

Statement of Revenues, Expenses, and Changes in Fund Net Assets/Surplus for the Year Ending December 31, 2008

Statement of Examination Changes for the Statement of Net Assets/Surplus, as of December 31, 2008

Reconciliation of Net Assets/Surplus, December 31, 2007 through December 31, 2008

Statement of Net Assets/Surplus
As of December 31, 2008

<u>Assets</u>	<u>Per</u> <u>GemPlan</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Cash and cash equivalents	\$2,450,379	\$ 0	\$2,450,379
Bannock County receivable (Note 1)	659,104	39,601	698,705
Receivable from other counties	84,305	0	84,305
Rebate receivable (Note 2)	<u>112,994</u>	<u>0</u>	<u>112,994</u>
Total assets	<u>\$3,306,782</u>	<u>\$ 39,601</u>	<u>\$3,346,383</u>
 <u>Liabilities and Net Assets (Surplus)</u>			
Interest payable (Note 3)	\$ 6,233	\$ 0	\$ 6,233
IBNR liability (Note 4)	1,143,595	448,133	1,591,728
Notes payable (Note 5)	700,000	0	700,000
Claims payable (Note 6)	1,424,749	0	1,424,749
Administration payable (Note 7)	602,081	616,234	1,218,315
Unearned county payments (Note 8)	<u>251,788</u>	<u>0</u>	<u>251,788</u>
Total Liabilities	<u>\$4,128,446</u>	<u>\$1,064,367</u>	<u>\$5,192,813</u>
 Total Net Assets/Surplus (Deficit)	 <u>(821,664)</u>	 <u>(1,024,766)</u>	 <u>(1,846,430)</u>
 Total Liabilities and Net Assets/Surplus	 <u>\$3,306,782</u>	 <u>\$ 39,601</u>	 <u>\$3,346,383</u>

The rest of this page was intentionally left blank.

Statement of Revenues, Expenses, and changes in Net Assets/Surplus
For the Year Ended December 31, 2008

	<u>Per</u> <u>GemPlan</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
Operating Revenues:			
Revenues	\$15,796,328	\$ 0	\$15,796,328
Formulary rebate	147,889	0	147,889
Refunds	<u>4,718</u>	<u>0</u>	<u>4,718</u>
Total Operating Revenues	<u>\$15,948,935</u>	<u>\$ 0</u>	<u>\$15,948,935</u>
Operating Expenses:			
Claims expense	\$11,404,296	\$ 0	\$11,404,296
Administration expense	1,992,709	0	1,992,709
IBNR liability expense	1,143,595	408,532	1,552,127
General overhead expenses	685,103	616,234	1,301,337
EAP expense	30,405	0	30,405
Bank charges	<u>7,373</u>	<u>0</u>	<u>7,373</u>
Total Operating Expenses	<u>\$15,263,481</u>	<u>\$ 1,024,766</u>	<u>\$16,288,247</u>
Income from Operations	<u>\$ 685,454</u>	<u>\$(1,024,766)</u>	<u>\$ (339,312)</u>
Non-Operating Income (Expenses)			
Interest income	\$ 35,697	\$ 0	\$ 35,697
Interest expense	<u>(60,678)</u>	<u>0</u>	<u>(60,678)</u>
Total Non-Operating Income (Expenses)	<u>\$ (24,981)</u>	<u>\$ 0</u>	<u>\$ (24,981)</u>
Change in Net Assets/Surplus	\$ 660,473	\$(1,024,766)	\$ (364,293)
Total Net Assets/Surplus, January 1	<u>(1,482,137)</u>	<u>0</u>	<u>(1,482,137)</u>
Total Net Assets/Surplus, December 31	<u>\$ (821,664)</u>	<u>\$(1,024,766)</u>	<u>\$(1,846,430)</u>

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Reconciliation of Examination Changes
To the Statement of Net Assets/Surplus
As of December 31, 2008

Net Assets/Surplus per GemPlan, December 31, 2008 \$(821,664)

<u>Account</u>	<u>Per</u> <u>GemPlan</u>	<u>Per</u> <u>Examination</u>	<u>Increase/</u> <u>(Decrease)</u> <u>In Net Assets</u> <u>(Surplus)</u>
Bannock County Receivable (Note 1)	\$ 659,104	\$ 698,705	\$ 39,601
IBNR Liability (Note 4)	1,143,595	1,591,728	(448,133)
Administration Payable (Note 7)	602,081	1,218,315	<u>(616,234)</u>
Net decrease in Net Assets/Surplus			<u>(1,024,766)</u>
Net Assets/Surplus Per Examination, December 31, 2008			<u>\$(1,846,430)</u>

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Reconciliation of Changes in Net Assets/Surplus
December 31, 2007 Through December 31, 2008

	<u>2007</u>	<u>2008*</u>
Net Assets/Surplus, End of Previous Year,	<u>\$(2,685,693)</u>	<u>\$(1,482,137)</u>
Change in Net Assets/Surplus	<u>1,203,556</u>	<u>(364,293)</u>
Net Assets/Surplus, End of Current Year	<u>\$(1,482,137)</u>	<u>\$(1,846,430)</u>

*Per Examination

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NOTES TO FINANCIAL STATEMENTS

Note (1) – Bannock County Receivable

\$698,705

The examination amount is \$39,601 greater than the amount reported by the GemPlan. The examination increase was the result of an examination adjustment to the IBNR liability for the year ended 2008. The adjusted balance is composed of \$332,608 of unpaid reported claim expenses and \$366,097 of incurred but not reported liability (IBNR) for the year ended 2008. As mentioned earlier, Bannock County self-insures itself. The IBNR component of the receivable is a 23% allocation based upon GemPlan’s total IBNR liability (i.e. \$1,591,728 x .23 = \$366,097). The allocation percentage is adjusted periodically to reflect the latest claims data available.

Note (2) – Rebate Receivable

\$112,994

The GemPlan’s third party claims administrator, BCI, received rebates from the drug companies. BCI retained 15% of the amounts received from the drug companies and paid the remaining 85% to the GemPlan. The captioned amount represents the estimated amount of rebates received by BCI in 2008 and yet to be paid to the GemPlan.

Note (3) –Interest Payable

\$6,233

The captioned amount represents a payable for the interest/service fee relating to the claims payments made by BCI in late 2008 and not yet reimbursed by the GemPlan. As mentioned under the earlier “*Contracts and Agreements*” section of the report, the GemPlan was invoiced weekly for BCI claims payments, however the GemPlan defers payment to BCI for approximately 30 days.

Note (4) – IBNR Liability

\$1,591,728

The IBNR liability as of December 31, 2008 was examined by Michael A, Mayberry, FSA, MAAA of Lewis & Ellis, Inc., contract actuary for the Idaho Department of Insurance. The Company provided claims triangles on claims paid through March 2009 and an estimate of the IBNR liability as of December 31, 2008 was developed.

The result of this analysis indicated the following understatement, or deficiency, in the IBNR liability:

Examination Mid-Point Estimate	\$1,591,728
GemPlan Estimate:	<u>1,143,595</u>
Indicated Adjustment for IBNR Deficiency	<u>\$ 448,133</u>

Therefore, the liability account “IBNR liability” was adjusted upward by \$448,133 because of a deficiency as determined by the examining actuary.

Note (5) – Notes Payable

\$700,000

The captioned amount consists of two (2) non-interest bearing cash loans made to the GemPlan in 2005 (\$200,000+\$500,000) from the GemPlan’s general manager, Mutual Insurance Associates, Inc. (MIA). The note payable specifies that the full amount of the loan be paid to MIA by July 1, 2009. The examination has concluded that it is probable that the GemPlan will not be able to pay-off these loans by July 1, 2009 due to its current adverse financial condition. During the examination fieldwork, MIA communicated a willingness to postpone the due date of these loans to July 1, 2012 or earlier. However, a legally binding document to that effect had not been received by the Department as of the end of the examination fieldwork.

Further, the aforementioned non-interest bearing loans may be in violation of Section 41-4115(3), Idaho Code which states in part:

No board member, administrator or other person having responsibility for the management of a joint public agency self-funded plan...shall have any direct or indirect material pecuniary interest in any loan...[emphasis added]

These loans were made prior to July 1, 2006, effective date of the above Idaho Code Section. However, these loans may still constitute a violation of Section 41-4015(3), Idaho Code. In summary, due to potential pecuniary interest(s) that would be in violation of Idaho Code, it is recommended that in the future, MIA cease making loans to the GemPlan.

Note (6) - Claims Payable

\$1,424,749

The captioned amount represents 2008 claims payments that had been paid by BCI but not yet reimbursed by the GemPlan as of December 31, 2008.

Note (7) - Administration Payable

\$1,218,315

The original reported balance of \$602,081 at December 31, 2008 was adjusted by the examination by the amounts in the table below for which the GemPlan was found to be contingently liable. These items fell into the following categories: 1) deferred management fees accruing to the general manager; and 2) a constructive loan by the general manager to the GemPlan for royalty fees paid to the Idaho Association of Counties (IAC).

12/31/08 Administration Payable		\$ 602,081
Adjusted for: 2004 Deferred Fees	\$ 32,534	
2005 Deferred Fees	211,000	
2006 Deferred Fees	322,700	
IAC Liability	50,000	
Total Examination Adjustment		<u>\$ 616,234</u>
12/31/08 Adjusted Administration Payable		<u>\$1,218,315</u>

The general manager communicated to the examiner that they would consider waiving the deferred management fees; however, as of the completion of examination fieldwork, a legally binding waiver had not been received by the Department. Further discussion regarding the deferred fees and IAC liability may be found in earlier sections of this report titled, respectively, “*General Manager Agreement*” and “*Royalty Agreement*.”

Note (8) - Unearned County Payments

\$251,788

The captioned amount represents January 2009 contributions from several counties that were received by the GemPlan as of December 31 2008.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2008, the GemPlan’s liabilities exceeded its assets. Assets totaled \$3,346,383, however liabilities were \$5,192,813, leaving a deficit in net assets (or surplus) of \$(1,846,430). Under Section 41-4110(1)(a), Idaho Code, the GemPlan shall have until July 1, 2009 to “fund the applicable reserves.”

Comments and Recommendations

Page

- 4 It is recommended that the GemPlan adopt and require annual execution of Conflict of Interest statements by all Trustees, administrators and consultants.
- 5 It is recommended that the GemPlan enter into an expense reimbursement agreement with Bannock County stating the types of expenses which will be reimbursed and when it will be reimbursed by the County.
- 5 It is recommended that the manager’s fee be calculated so as to conform to the management agreement, or that the agreement be amended to conform with actual practice.
- 6 It is recommended that the GemPlan amend the management agreement to reflect the specific expenses to be paid by the general manager.
- 6 It is recommended that the GemPlan amend the management agreement to reference Title 41, Chapter 41, instead of Title 41, Chapter 40 (since the GemPlan is currently regulated under Chapter 41).

(Comments and Recommendations continued on next page)

- 7 It is recommended that the GemPlan's general manager (MIA) execute a memorandum of understanding for waiving the right to collect the \$50,000 of royalty payments it made on behalf of the GemPlan in 2007 and 2008, thereby relieving it of its creditor status which appears to violate Section 41-4115(3), Idaho Code.

If MIA and the GemPlan jointly desire MIA to continue making future royalty payments on behalf of the GemPlan, the parties may want to amend the management agreement to specify that the general manger is to make this payment in consideration of/for the management fee. It also appears, however, that unless the original GemPlan/IAC contract is modified, IAC will always have direct (primary) recourse against the GemPlan for non-payment of the royalty fee.

- 8 It is recommended that any newly Board approved and executed revisions of the Joint Powers Agreement, Trust Agreement and Bylaws be promptly filed with the Idaho Department of Insurance.
- 11 It is recommended that the GemPlan, through its appointed external auditor/CPA, periodically perform a sample review of the underlying claims data/records maintained by the TPA.
- 11 It is recommended that the GemPlan post all year-end adjusting/audit entries into the general ledger.
- 17 The examination amount for the asset account, Bannock County receivable was \$39,601 larger than the amount reported by the GemPlan due to an allocation of the GemPlan's year-end actuarial IBNR deficiency.
- 17 The liability account "IBNR liability" was adjusted upward by \$448,133 because of a deficiency as determined by the examining actuary.
- 18 Due to potential pecuniary interest(s) that would be in violation of Section 41-4115(3), Idaho Code, it is recommended that in the future, MIA cease making loans to the GemPlan.
- 18 The examination amount for the liability account "*administration payable*" was adjusted upward by \$616,234 to give effect to liabilities associated with deferred management fees and a constructive loan related to the royalty agreement with IAC.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the GemPlan's general manager and staff in conducting the examination.

In addition to the undersigned, Mike Mayberry, FSA, MAAA, Lewis & Ellis, Inc., participated in the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kelvin Ko", written over a horizontal line.

Kelvin Ko, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

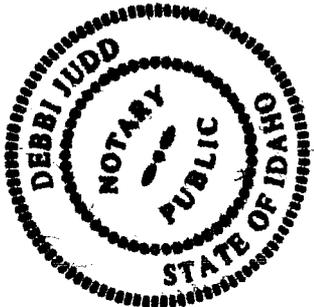
State of Idaho
County of Ada

Kelvin Ko being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of *Government Employees Medical Plan* for the period from September 25, 2007 through December 31, 2008, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

Kelvin Ko
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 19th day of May, 2009, at Boise, Idaho.

Debbi Judd
Notary Public



My Commission Expires: 7/30/2010



GemPlanSM

Board of Trustees

District I
Ron Smith
Boundary County
267-7723

District II
Stan Leach
Clearwater County
476-3615

District III
William Brown
Adams County
347-2290

District IV
Duane Smith
Minidoka County
436-7111

District V
Ken Estep
Power County
226-7610

District VI
Seth Beal
Butte County
527-3137

Cleone Jolley
At Large
Bingham County
782-3010

WAIVER

In the matter of the Report of Examination as of December 31, 2008 of:

Government Employees Medical Plan
1575 Baldy Avenue
Pocatello, Idaho 83201

By executing this Waiver, the Government Employees Medical Plan hereby acknowledges receipt of the above-described examination report, verified as of the 1st day of June 2009, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said modified report without any further modifications.

By executing this Waiver, the Company also hereby waives:

- 1) Its right to recommend to the director such corrections or changes therein as prescribed by Sec. 41-4113(3), Idaho Code, and
- 2) any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
- 3) any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 30th day of June, 2009

Todd M. Lakey

Name (print)

[Handwritten Signature]

Name (signature)

Acting Executive Director

Title





GemPlanSM

June 30, 2009

Board of Trustees

Department of Insurance
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

District I

Ron Smith
Boundary County
267-7723

This is GemPlan's response to the Exam Report Recommendations/ Findings. The Board of Trustees wishes to have the response included as part of the public report.

District II

Stan Leach
Clearwater County
476-3615

Financial Summary

The results of this examination disclosed that as of December 31, 2008, the GemPlan's liabilities exceeded its assets. Assets totaled \$3,346,383, however liabilities were \$5,192,813, leaving a deficit in net assets (or surplus) of \$(1,846,430). Under Section 41-4110(1)(a), Idaho Code, the GemPlan shall have until July 1, 2009 to "fund the applicable reserves."

District III

William Brown
Adams County
347-2290

The GemPlan Board believes that actions taken following this examination bring GemPlan into compliance with this Code Section.

District IV

Duane Smith
Minidoka County
436-7111

Comments and Recommendations

Page

District V

Ken Estep
Power County
226-7610

- 4 It is recommended that the GemPlan adopt and require annual execution of Conflict of Interest statements by all Trustees, administrators and consultants.

Board approved adopting executing Conflict of Interest statements by all Trustees, administrators and consultants.

District VI

Seth Beal
Butte County
527-3137

- 5 It is recommended that the GemPlan enter into an expense reimbursement agreement with Bannock County stating the types of expenses which will be reimbursed and when it will be reimbursed by the County.

Discussed with the board - pending further action.

Cleone Jolley

At Large
Bingham County
782-3010

- 5 It is recommended that the manager's fee be calculated so as to conform to the management agreement, or that the agreement be amended to conform with actual practice.

1575 Baldy Ave., Pocatello, ID 83201 1-800-632-0905 208-237-9696

EXHIBIT
C

Board approved amending the management agreement.

- 6 It is recommended that the GemPlan amend the management agreement to reflect the specific expenses to be paid by the general manager.

Board discussed but has not yet taken action.

- 6 It is recommended that the GemPlan amend the management agreement to reference Title 41, Chapter 41, instead of Title 41, Chapter 40 (since the GemPlan is currently regulated under Chapter 41).

Board approved amending the management agreement to reference Title 41, Chapter 41.

- 7 It is recommended that the GemPlan's general manager (MIA) execute a memorandum of understanding for waiving the right to collect the \$50,000 of royalty payments it made on behalf of the GemPlan in 2007 and 2008, thereby relieving it of its creditor status which appears to violate Section 41-4115(3), Idaho Code.

If MIA and the GemPlan jointly desire MIA to continue making future royalty payments on behalf of the GemPlan, the parties may want to amend the management agreement to specify that the general manger is to make this payment in consideration of/for the management fee. It also appears, however, that unless the original GemPlan/IAC contract is modified, IAC will always have direct (primary) recourse against the GemPlan for non-payment of the royalty fee.

General Manager (MIA) has executed a Waiver of Rights to Collect Funds for \$50,000 of royalty payments.

Board discussed but has not yet taken action.

- 8 It is recommended that any newly Board approved and executed revisions of the Joint Powers Agreement, Trust Agreement and Bylaws be promptly filed with the Idaho Department of Insurance.

Approved and executed revisions of the Joint Powers Agreement, Trust Agreement and Bylaws will be promptly filed with the Idaho Department of Insurance.

- 11 It is recommended that the GemPlan, through its appointed external auditor/CPA, periodically perform a sample review of the underlying claims data/records maintained by the TPA.

Board discussed and took no action at this time.

- 11 It is recommended that the GemPlan post all year-end adjusting/audit entries into the general ledger.

The year-end adjusting/audit entries have been posted into the general ledger.

- 17 The examination amount for the asset account, Bannock County receivable was \$39,601 larger than the amount reported by the GemPlan due to an allocation of the GemPlan's year-end actuarial IBNR deficiency.

Noted.

- 17 The liability account "IBNR liability" was adjusted upward by \$448,133 because of a deficiency as determined by the examining actuary.

Noted.

- 18 Due to potential pecuniary interest(s) that would be in violation of Section 41-4115(3), Idaho Code, it is recommended that in the future, MIA cease making loans to the GemPlan.

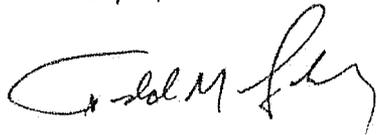
Board agreed that MIA will cease making loans to the GemPlan.

- 18 The examination amount for the liability account "*administration payable*" was adjusted upward by \$616,234 to give effect to liabilities associated with deferred management fees and a constructive loan related to the royalty agreement with IAC.

General Manager (MIA) has executed a Waiver of Rights to Collect Funds for "administration payables" for deferred management fees and a constructive loan related to the royalty agreement with IAC.

The above actions will be reflected in the June 30, 2009 financial statement.

Thank you,



Todd M. Lakey
Acting Executive Director