

EXAMINATION REPORT OF THE
IOWA LONG TERM CARE RISK MANAGEMENT ASSOCIATION
WEST DES MOINES, IOWA
AS OF DECEMBER 31, 2016

West Des Moines, Iowa
June 10, 2018

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Ommen:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

IOWA LONG TERM CARE RISK MANAGEMENT ASSOCIATION

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2016

at the offices of its administrator located at 1501 42nd Street, Suite 220, West Des Moines, Iowa. The report containing applicable comments, explanations and financial data, is presented herewith.

INTRODUCTION

Iowa Long Term Care Risk Management Association (the Association) is an unincorporated, nonprofit association, currently comprised of more than 140 Iowa care facilities, licensed under Chapter 135C, Code of Iowa, whose purpose is the management of a self-insured workers' compensation program for the benefit of its members.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2011, the date of the last examination, to December 31, 2016. The examination has been conducted in accordance with procedures established by the Iowa Insurance Division. In addition to the review of the Association's business transactions during the stated period, a review was made of the Association's compliance with the Iowa Administrative Code, Section 191, Chapter 56, which provides rules and requirements for approval for groups self-insuring workers' compensation and employer liabilities.

A detailed audit was not made of all transactions, but accounting procedures and records were examined and tested to the extent deemed essential. The Association's assets were verified and evaluated and its liabilities were determined, which are reflected in a financial statement contained herein as of December 31, 2016.

HISTORY

The Association was issued a certificate of approval from the Iowa Insurance Division on November 1, 1991 under the provisions of Section 87.4, Code of Iowa and Iowa Administrative Code (IAC) 191.56.3(2), which relieves the Association from insurance required by Chapters 85A and 87, Code of Iowa. The certificate is continuous in effect. The Association must remain compliant with IAC 191.56.3(2) to retain its certificate of approval.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership is comprised of those institutions that are licensed pursuant to Iowa Code Chapter 135C which have met the Association's requirements for a Certificate of Membership.

Annual meetings of the members are held once every year at a time and a place chosen by the Board of Trustees. Special meetings may be called at any time as provided in the Bylaws. Members holding 25 percent of the votes which may be cast at any meeting constitute a quorum. Each member present is entitled to one vote and all actions taken by the members are carried by a simple majority. Voting by Proxy is allowed.

BOARD OF TRUSTEES

The Association operates under the direction of not less than five, nor more than 12 persons with the number fixed by resolution of the members. Seven board members was fixed by membership resolution in 1994. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining trustees.

The members of the Board of Trustees as of December 31, 2016:

<u>Name</u>	<u>Affiliate Member and Address</u>	<u>Term Expires</u>
Edward Poush	Mayflower Homes, Inc. Grinnell, Iowa	2017
Mike Hocking	Thomas Rest Haven Coon Rapids, Iowa	2017
Robin Mixdorf	Meth-Wick Community Cedar Rapids, Iowa	2018
Doug Johnson	2018 Hawkeye Care Center West Des Moines, Iowa	2018
Brad Lorenzen	Afton Care Center Cedar Rapids, Iowa	2018
Amy Tressel	Healthcare of Iowa, Inc. Cedar Rapids, Iowa	2019

The Board meets at least once a year or more often as needed at a time and a place as provided in the Bylaws. Two-thirds constitute a quorum to transact the business.

The trustees serve without remuneration but they are reimbursed for any reasonable expense incurred in attending meetings or discharging any other duties on behalf of the Association.

The number of the board members decreased from seven to six in 2015. Documentation of the required member approval in the minutes was not evident.

OFFICERS

The Bylaws state that the officers of the Association shall be a President, a Vice President, a Secretary, and a Treasurer to be elected annually by the Board of the Trustees from its own membership.

Among other duties:

- President shall preside at all meetings.
- Vice President shall preside at meetings in the absence of the President.
- Secretary shall keep or cause to be kept correct minutes of all meetings of the members and the trustees.
- Treasurer shall keep or cause to be kept accurate financial records.
- All officers shall perform such other duties as prescribed by law, the Bylaws or as prescribed by the Board.

Officers serving the Association at December 31, 2016 were:

<u>Name</u>	<u>Title</u>
Robin Mixdorf	President
Amy Tressel	Vice President
Edward Poush	Secretary-Treasurer

Election of officers was not documented in the Board minutes.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers and directors. No conflicts disclosed.

CORPORATE RECORDS

The minutes of the meetings of the membership and the Board of Trustees were read and reviewed for the period under examination.

The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2011 was reviewed and accepted at the September 13, 2013 Board meeting.

FIDELITY BOND

The Association's administrator has a fidelity bond in the amount of \$5,000,000 as required by Iowa Administrative Code Chapter IAC-56.3 (2) (g)-(h).

PROGRAM OF OPERATION

Underwriting Guidelines

Before becoming a member of the Association, an applicant must provide certain information including, but not limited to, the following:

- Accord workers' compensation application must be completed.
- The prospect must be approved by the excess carrier.
- Most recent experience rating worksheet from the National Council on Compensation Insurance, Inc. (NCCI) must be submitted.
- Current loss information and four prior policy periods including details of any losses totaling \$50,000 or over.
- Payroll for the last five policy periods and payroll for worker compensation class codes for 8829 and 8824.
- Applicant must have been in business for the last three years and pay a minimal standard premium of \$10,000.

Coverage and Premium Agreement

Before the applicant is accepted by the Association, the applicant must submit for acceptance as a member by signing an agreement in which:

- The Association agrees to pay workers' compensation benefits and employers' liability benefits under the laws of the State of Iowa, subject to the limits of liability, and to defend any claim or proceeding or lawsuit brought against any member.
- The member agrees to pay a 25 percent deposit of the projected minimum contribution, which is based on the estimated payroll, projected claims and administrative costs at the beginning of each contract year. Contributions will be set using approved classification rates multiplied by the individual member's established modification factor and the amount of remuneration paid or payable during the coverage agreement period. The remaining estimated annual contributions will be remitted in six equal monthly installments. The final contribution will be subject to an annual payroll audit to determine actual payroll.
- It is agreed that if a member's actual claims for any fund year exceed the claim fund amount outlined in the proposal, after adjustment for actual payrolls, the member may then be required to contribute up to the potential maximum contribution outlined in the proposal.

Indemnity Agreement

A member agrees that all members of the Association and the Association are jointly and severally covenant to assume and discharge the workers' compensation obligations of each member. The member agrees as a condition of membership to adopt and comply with the Bylaws of the Association. The member, jointly and severally with the other members, covenants and agrees to discharge each and every obligation of the Association as may be set out in the Bylaws or in any other rule of the Association lawfully adopted including but not limited to prompt payment of premiums; compliance with underwriting, safety and reporting rules and other conditions; and payment of assessments made pursuant to the Bylaws including joint and several liability.

Service Agreement

The Association has an agreement with an administrator, which is responsible for carrying out the policies established by the Board of Trustees and for providing the day-to-day management of the Association.

The regular duties of administrator as stated in the agreement include the responsibilities set forth in Chapter 56, Iowa Administrative Code, and include specifically:

- Preparing, compiling and filing notices, reports, documents, forms and surveys as may be required of the Association by the Iowa Insurance Division and Workers' Compensation Commissioner.
- Representing the Association at all necessary hearings, administrative inquiries, meetings and conventions.
- Providing management and administration of all claims under Coverage Agreement.
- Monitoring claims for subrogation.
- Providing personnel to conduct on-site loss control inspections, reviewing claims loss history information with members during the visits, and making reports of inspections available to members.
- Marketing, promoting and developing membership in the Association to all potentially eligible members.
- Recommending the dispositions of applications for membership based on underwriting criteria.
- Proposing, billing and collecting contributions from members.
- Negotiating and placing excess reinsurance coverage for the Association and its members as directed or required by the statute.

- Managing investments and cooperating with any fiscal or fiduciary agent appointed by the Association for the management of the Association's investments.
- Accounting for all funds received, disbursed, held, invested and all other transactions performed according to:
 - o the rules and regulations of the Association,
 - o this agreement,
 - o applicable statutes and rules and regulations of the Iowa Insurance Division and the Workers' Compensation Commissioner.
- Preparing and maintaining adequate and accurate books, records and accounts on behalf of the Association in compliance with applicable statutes, regulations and established practices.
- Developing statistical systems and reports to facilitate actual losses and loss adjustment expenses; estimating reserves for losses and loss adjustment expense; and estimating reserves for incurred but not reported claims.
- Assisting the Association in selecting the firms to conduct financial and payroll audits, actuarial studies, legal and rehabilitative services.

The Administrator agrees to provide the following reports to the Association and its members on either a monthly or quarterly basis:

- Loss runs to members (monthly).
- Loss summary to members (monthly).
- Claimant payment report to members (monthly).
- Summary claim reports on large claims to claims committee (quarterly).
- Loss control reports to all Board members at Board meetings (quarterly).
- Association financial statements distributed to all Board members at Board meetings (quarterly).
- Marketing reports distributed to all Board members at Board meetings (quarterly).
- Member lists to all Board members at Board meetings (quarterly).

The Association agrees to be responsible for and pay all of its own operating expenses other than service obligations of Administrator. Such operating expenses shall include but not be limited to the following:

- All costs associated with meeting state security requirements.
- Certified public accountants.
- Attorneys, other than provided for in the settlement or defense of claims.
- Outside consultants, actuarial services or studies and state audits.
- Independent payroll audits.
- Allocated claim expenses.
- Governmental fees and taxes.
- Educational and/or promotional material, loss control material, customized forms and/or stationery, supplies, and extraordinary postage.
- Off-site meeting expenses.
- NCCI charges.
- Excess and other reinsurance premiums and expenses.
- Other operating costs as normally incurred by the Association.

Provisions are included for the termination, expiration and cancellation of this successive three-year term agreement.

The Association currently pays a service fee equal to the sum of .45 percent of each member's payroll. The fee is adjusted annually based on the audited payroll of all members. The maximum yearly increase in fees is 6 percent unless otherwise mutually agreed by both parties.

The current service agreement renews every three years. No changes have been made to service agreement since 2002.

REINSURANCE

The Association maintains a per occurrence and aggregate excess of loss policy which indemnifies the insured for losses in excess of its per occurrence retention limit of \$550,000 up to the statutory limit of \$1,000,000. The reinsurer will reimburse the insured with respect to each accident and each employee disease up to the statutory limit. The insured's retention applies to both workers' compensation and employers' liability together. Aggregate excess coverage limit for all exposures occurring during the policy period above the insured's retention limit of 88 percent of the total standard premium will be the aggregate limit of \$4,000,000.

SECURITY DEPOSIT

The Association has a deposit of \$550,000, which is held in the name of the Commissioner of Insurance for the State of Iowa to secure the liabilities for benefits under the workers' compensation laws of the state. The amount of the deposit is required to be not less than the Association's per occurrence excess insurance retention under the excess insurance contract as required by the Iowa Administrative Code 191-56.3(2)d.

SPECIAL DEPOSIT

The Association also has a deposit of \$887,743 as of December 31, 2016 held by the Insurance Commissioner which is maintained for the purpose of discharging workers' compensation benefits to Association members and which has been established to provide coverage for any gap that may exist in the Association's excess reinsurance coverage.

GROWTH OF THE ORGANIZATION

The following historical financial data, taken from audit reports for the years indicated, reflects the growth of the Association:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2012	17,601,892	59,694	8,071,963	6,647,309	493,435
2013	18,775,133	73,314	8,361,614	7,477,815	337,539
2014	19,390,973	127,559	9,066,309	7,442,927	290,460
2015	20,393,630	415,877	8,741,813	6,828,890	284,886
2016	20,760,536	861,225	8,219,845	6,028,834	270,319

ACCOUNTS AND RECORDS

The Association accounts were reconciled to the audited financial statements on file with the Iowa Insurance Division.

F I N A N C I A L S T A T E M E N T S

A N D C O M M E N T S T H E R E O N

Note: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2016 and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

Cash and Cash Equivalents	\$ 2,836,124
Marketable Securities	12,945,697
Reinsurance Recoverable	17,834
Member Contributions Receivable	4,703,402
Interest Receivable	88,807
Prepaid Expenses	57,499
Deferred Tax Asset	<u>111,173</u>
 Total Assets	 <u>\$20,760,536</u>

LIABILITIES AND RESERVE FUNDS

Reserve for Claims	\$ 7,509,876
IBNR	4,583,437
Unearned Premiums	6,095,134
Amounts Payable to Members	170,282
Custodial Reserve	887,743
Security Deposit Reserve	550,000
Accounts Payable	66,671
Income Tax Payable	<u>36,168</u>
 Total Liabilities	 \$19,899,311
 Reserve Funds	 <u>861,225</u>
 Total Liabilities and Reserve Fund	 <u>\$20,760,536</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDING DECEMBER 31, 2016
STATEMENT OF INCOME

Underwriting Income

Contributions \$8,219,845

Deductions

Losses incurred \$6,028,834

Operating expenses incurred 2,083,069

Total underwriting deductions 8,111,903

Net underwriting gain (loss) \$ 107,942

Net investment income 270,319

Other income _(7,918)

Net income before Federal income taxes \$ 370,343

Federal income taxes incurred 36,168

Net Income \$ 334,175

CAPITAL AND FUND BALANCE ACCOUNT

Fund balance, December 31, 2015 \$ 415,877

Net income 334,175

Change in Deferred tax asset (71,731)

Change in Non-admitted assets 182,904

Fund balance, December 31, 2016 \$ 861,225

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE YEAR PERIOD ENDING DECMEBER 31, 2016

STATEMENT OF INCOME

Underwriting Income

Contributions \$42,461,544

Deductions

Losses incurred 34,425,775

Operating expenses incurred 8,911,834

Total underwriting deductions \$43,337,609

Net underwriting gain (loss) \$ (876,065)

Net investment income 1,676,639

Other income (18,005)

Net income before Federal income taxes \$ 782,569

Federal income taxes incurred 39,650

Net Income \$ 742,919

CAPITAL AND FUND BALANCE ACCOUNT

Fund balance, December 31, 2011 \$ 17,854

Net income \$ 742,919

Change in Deferred tax asset (157,998)

Change in Non-admitted assets 258,450

Fund balance, December 31, 2016 \$ 861,225

CASH FLOW STATEMENT

Cash from Operations

Net income	334,175
Adjustments to reconcile net income to net cash:	
Loss on Sale/Sale of investments	2,036
Net amortization of securities	93,451
Effects of Changes to securities:	
Contribution related accounts	(57,631)
Reinsurance recoverable	21,324
Interest receivable	14,049
Prepaid expenses	(4,043)
Accounts payable and accrued expenses	11
Income taxes payable	36,168
Reserves for claims	<u>485,332</u>
Net cash from operations	<u>924,872</u>

Cash from Investments

Proceeds from investments sold, matured and repaid:	1,763,906
Cost of investments acquired	<u>(2,897,168)</u>
Net cash from investments	<u>(1,133,262)</u>

Net Increase in Cash and Cash Equivalent \$ (208,390)

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	<u>\$ 208,390)</u>
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>\$ 3,044,514</u>
End of year	<u>\$ 2,836,124</u>

COMMENTS

No changes have been made to the financial statements for the period ending December 31, 2016.

CONCLUSION

The cooperation and assistance of Administrator during this examination is hereby acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jerry P. Cihota". The signature is written in a cursive style with a horizontal line at the end.

JERRY P. CIHOTA, CPA, CFE
Examiner
Insurance Division of Iowa