

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Southern Wellness Trust)
498 South Larry Byrd Boulevard)
French Lick, IN 47432)

Examination of: **Southern Wellness Trust**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Amy L. Beard, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Southern Wellness Trust, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 18, 2024, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Southern Wellness Trust shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

5/2/2024

Date



Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7019 0700 0000 3590 3390

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FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Southern Wellness Trust (hereinafter “Company”) for the time period January 1, 2016 through December 31, 2020.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on September 29, 2023.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 18, 2024, and was received by the Company on April 22, 2024.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Southern Wellness Trust as of December 31, 2020.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Southern Wellness Trust to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 2nd day of
May, 2024.



Amy L. Beard
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA

Department of Insurance

REPORT OF THE LIMITED SCOPE EXAMINATION

OF

SOUTHERN WELLNESS TRUST

A MULTIPLE EMPLOYER WELFARE ARRANGEMENT

NAIC Co. CODE 15945

As of and for the year ending

December 31, 2020



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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Amy L. Beard, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-234-2103
Website: in.gov/idoi

September 29, 2023

Honorable Amy Beard, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 4102, an examination was performed of the affairs and financial condition of:

**Southern Wellness Trust
498 South Larry Byrd Boulevard
French Lick, IN 47432**

Southern Wellness Trust is a Multiple Employer Welfare Arrangement (MEWA) formed to provide health benefits covering all eligible employees of participating educational institutions that are located in the State of Indiana.

Ingardus, LLC conducted the examination remotely with the cooperation of Southern Wellness Trust.

The Report of Examination, reflecting the status of the Trust as of and for the year ending December 31, 2020, is respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES COMPANY COMPLIANCE CONSUMER SERVICES FINANCIAL SERVICES MEDICAL MALPRACTICE COMPANY RECORDS STATE HEALTH INSURANCE PROGRAM
317-232-2389 317-232-3495 317-232-2395/1-800-622-4461 317-232-2390 317-232-5253 317-232-2383 1-800-452-4800

SCOPE OF EXAMINATION

Representatives of the Indiana Department of Insurance (the Department) had not previously examined Southern Wellness Trust (the Trust). Ingardus, LLC (Ingardus) performed a limited scope examination of the Trust for the period from January 1, 2016 through December 31, 2020. The examination included all material transactions and events occurring subsequent to the examination date and noted during the course of the examination.

The limited scope examination was conducted using agreed upon procedures provided by the Department. Ingardus performed the examination of the Trust in order to evaluate its statutory compliance, financial condition, and to identify possible prospective risks of the Trust. During the examination, Ingardus obtained certain information pertaining to the Trust, including corporate governance matters. The examination also included assessing the principles used and significant estimates made by management, and evaluated the overall financial statement presentation of the Trust.

All accounts and activities of the Trust were considered in accordance with the limited scope examination process. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Trust's financial statements.

This limited scope examination report is consistent with Indiana Code § 27-1-3.1-10. There may have been other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but were separately communicated to the Department and/or the management of the Trust.

HISTORY

Four (4) participating employers established the Trust on January 1, 2011. The Trust was comprised of ten (10) participating employers as of December 31, 2020. The purpose of the Trust is to provide medical and administrative services for the benefit of the employees of participating employers. The Third Amended and Restated Agreement and Declaration of Trust of the Southern Wellness Trust (Trust Agreement) was effective on January 1, 2016. The Trust qualifies for exemption from taxation under Section 115(1) of the Internal Revenue Code.

TERRITORY AND PLAN OF OPERATION

The Trust offers group medical benefits to eligible employees of participating school districts in southern Indiana. The medical benefits offered are self-funded. As of December 31, 2020, the Trust had 1,084 participating employees across ten (10) employers.

GROWTH OF THE TRUST

The following exhibit summarizes the financial results of the Trust during the examination period:

Year	Assets	Liabilities	Fund Balance	Change in Fund Balance
2020	\$ 1,967,260	\$ 2,812,390	\$ (845,130)	\$ (1,923,874)
2019	3,098,664	2,019,920	1,078,744	(607,243)
2018	3,674,233	1,988,246	1,685,987	5,017
2017	3,700,269	2,019,299	1,680,970	843,648
2016	2,390,129	1,552,807	837,322	115,558

The Trust's assets are held in qualified financial institutions. From January 1, 2016 through December 31, 2019, the Trust's Fund Balance exceeded the minimum statutory balance requirements set forth in 760 IAC 1-68-10. As of December 31, 2020, the Trust's Fund Balance was below the minimum required statutory balance. See the Other Significant Issues and Subsequent Events sections of this Report of Examination for further discussion.

MANAGEMENT AND CONTROL

Trustees

In accordance with the Trust Agreement, the school board of each participating employer shall appoint two (2) Trustees. The school board shall appoint the (i) superintendent of schools and (ii) president of the local education association to serve as trustees, unless the participating employers appoint alternatives.

The bylaws require that the Trustees elect the following officer positions of President, Vice President and Secretary/Treasurer.

The following is a listing of persons serving as Trustees as of December 31, 2020, and their respective participating employer:

Name	Participating Employer
Robb Reynolds, Timothy Taylor	Brownstown Central Community Schools
Terry Goodin, Cassandra Kelly	Crothersville Community Schools
Aaron Guernsey, Steve Morris	Lanesville Community School
Gloria Schlemmer, Mike Wilcox	Mitchell Community Schools
Lance Richards, Ron Zink	North Harrison Community Schools
Logan Felts, Ty Mungle	North Lawrence Community Schools
Michelle Duncan, Mary Roberson	Perry Central Community Schools
Jami Parks, Brandon Stagnolia	Scott County School District #1
Trevor Apple, Jason Russell	Springs Valley Community Schools
John Hammond, Kim Thurston	Salem Community Schools

Trust Officers

The following is a listing of persons serving as officers of the Trust as of December 31, 2020:

Name	Title
Lance Richards	President
Michelle Duncan	Vice President
Steve Morris	Secretary
Ty Mungle	Treasurer

Board of Trustees

The Board of Trustees (Trustees) manages the Trust. The Trustees meet regularly to review and oversee Trust operations. The Trustees' duties include overseeing the administration of the Trust, approving premium rates, engaging third party service providers and managing investments, pursuant to the provisions of the Trust Agreement. The Trust does not have any official employees. However, the Trust does have an Administrator. The Administrator is an employee of Springs Valley Community Schools (an Employer). The Administrator's salary is paid by Springs Valley Community Schools. The Trust pays Springs Valley Community Schools \$10,000 per year for the services provided by the Administrator. All operational functions that are not performed by the Trustees or the Administrator are outsourced to third party vendors. See the Subsequent Events section of this Report of Examination for further discussion.

The Trust utilizes a network of advisors, auditors, outside legal counsel and an outsourced actuary to provide additional oversight and advice to the Trustees, to mitigate risk, promote transparency, and assist the Trust in achieving its goals.

CORPORATE RECORDS

Trust Agreement

The Trust Agreement was effective January 1, 2016. There were no amendments made to the Trust Agreement during the examination period.

The Trust Agreement is consistent with Indiana statutory requirements and regulations. The examination noted the absence of any instances where the Trust was operating contrary to the provisions of the Trust Agreement.

Bylaws

The Trust's current bylaws were adopted on or about January 1, 2011. There were no amendments made to the bylaws during the examination period.

Minutes

The Trustees and committee meeting minutes for the period under examination, and for a period subsequent to the period under examination, were reviewed by the Examiners.

CONTRACT DOCUMENTATION

The following paragraphs describe the Trust's material contracts that were effective as of December 31, 2020:

Medical and Pharmacy Plan

The Trust's plan documents are updated annually. The Trust's plan documents describe the Trust's medical insurance benefit offerings and United Healthcare Services, Inc. administers them. The summary plan descriptions are comprehensive documents, which describe plan coverages, and exclusions, claim processes, resources available, and include language concerning compliance and statutory requirements. The examination noted the absence of any instances where the Trust provided benefits that were contrary to the benefits defined in the plan documents selected for review.

Administrative Services Agreement

Effective January 1, 2020, the Trust and United Healthcare Services, Inc., entered into an Administrative Service Agreement whereby United Healthcare Services, Inc. agreed to provide claims and administration services, and administer complaints and appeals for the Trust. The Administrative Services Agreement was amended on an annual basis during the examination period.

Group Purchasing Organization Agreement

Effective November 2019, the Trust entered into a two (2) year agreement with CoreTrust for collective purchasing, including pharmacy benefits. The agreement automatically extends for twelve (12) month periods unless one party to the agreement provides notice of non-renewal.

Actuarial Services Agreement

The Trust entered into an agreement with Nyhart to provide the required actuarial certification of the Trust's operations and funding. Suraj M. Datta, ASA, MAAA and Emily Clauss, ASA, MAAA signed the actuarial report for the Trust as of December 31, 2020 on March 25, 2021.

Legal Services Agreement

Effective January 1, 2016, the Trust entered into a Legal Services Agreement with Bose McKinney & Evans LLP to provide legal support services. The agreement automatically extends for twelve (12) month periods unless one party to the agreement provides notice of non-renewal. As of December 31, 2020 there were no pending litigation matters identified during the examination.

Independent Audit Agreement

Effective November 10, 2020, the Trust entered into an agreement with Brady, Ware & Schoenfeld, Inc. to conduct the annual audit for the Trust. The independent audit report as of December 31, 2020 was issued with a qualified opinion because of the Trust's fund balance. See the Other Significant Issues and Subsequent Events sections of this Report of Examination for further discussion.

FIDELITY BOND

The Trust protects itself against loss from any fraudulent or dishonest acts through the purchase of a fidelity crime bond issued by The Ohio Casualty Insurance Company. The bond has a policy aggregate limit of liability of \$500,000. No exceptions were noted with regard to the fidelity coverage purchased by the Trust.

REINSURANCE

Excess Loss Fund Insurance Protection

The Trust has a stop loss policy with United Healthcare Insurance Company. The coverage applies to medical and prescription drugs. For the policy period of January 1, 2020 through December 31, 2020, the specific deductible per covered person was \$200,000 with an unlimited maximum specific benefit per covered person. For aggregate risk, the minimum annual aggregate deductible was \$13,565,612 or 95% of the first monthly aggregate deductible amount times 12, whichever is greater.

ACCOUNTS AND RECORDS

The Trust's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Trust's accounting procedures, practices, and account records were deemed acceptable. See the Other Significant Issues and Subsequent Events sections of this Report of Examination for further discussion.

RELATED PARTY TRANSACTION

The Trust's Administrator is an employee of Springs Valley Community Schools (an Employer). The Administrator's salary is paid by Springs Valley Community Schools. The Trust pays Springs Valley Community Schools \$10,000 per year for the services provided by the Administrator. See the Subsequent Events section of this Report of Examination for further discussion.

SOUTHERN WELLNESS TRUST
Statement of Assets, Liabilities and Fund Balance
As of December 31, 2020

	<u>Per Examination*</u>
ASSETS	
Cash	\$ 286,169
Medical claims fund	237,000
Certificate of deposit	1,051,855
Stop loss, rebate and refund receivables	<u>392,236</u>
Total Assets	<u><u>\$ 1,967,260</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Unearned premiums	\$ 1,166,744
Claims payable	148,301
Incurred but not reported claims reserve	<u>1,497,345</u>
Total Liabilities	<u><u>2,812,390</u></u>
Fund Balance	
Restricted reserve - supplemental contribution reserve	24,370
Unrestricted reserve	<u>(869,500)</u>
Total Fund Balance	<u>(845,130)</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,967,260</u></u>

* In accordance with IAC 1-68-1 (12), supplemental contribution fund assets are restricted to being used solely for the payment of outstanding claims. No financial adjustments were proposed; however, some fund balance line items may have been changed, for presentation purposes.

SOUTHERN WELLNESS TRUST
Statement of Revenue, Expenses and Change in Fund Balance
For the year ending December 31, 2020

	<u>Per Examination*</u>
REVENUE	
Net premiums	
Premiums - Employer contributions	\$ 13,286,054
Reinsurance premiums paid	<u>(1,454,214)</u>
Total net premiums	11,831,840
Interest income	<u>35,270</u>
Total Revenue	11,867,110
EXPENSES	
Claims paid, net of refunds and rebates	11,976,317
Change in claims reserve	588,813
Administrative and network fees	1,027,618
Transitional reinsurance fees	10,000
Trust administrator services	103,512
Shared saving fees	64,950
Professional fees	15,333
Miscellaneous	<u>4,441</u>
Total Expenses	<u>13,790,984</u>
CHANGE IN FUND BALANCE	
Net loss	(1,923,874)
Fund balance, beginning of year	<u>1,078,744</u>
Fund balance, end of year	<u>\$ (845,130)</u>

* No financial adjustments were proposed; however, some revenue and expense line items may have been moved for presentation purposes.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of and for the year ending December 31, 2020, based on the results of the examination.

OTHER SIGNIFICANT ISSUES

Indiana Administrative Code section 760 IAC 1-68-10 requires that the Trust's Fund Balance exceed the minimum statutory balance requirement of \$500,000. As of December 31, 2020, the Trust's Fund Balance was (\$845,130).

It is recommended that the Trust becomes compliant 760 IAC 1-68-10.

Indiana Administrative Code section 760 IAC 1-68-2(d)(8) requires that the Trust's Supplemental Contribution Fund must be set to fund at least one hundred percent (100%) of the aggregate retention plus all other costs of the Trust. As of December 31, 2020, the Trust's Supplemental Contribution Fund was insufficient by \$1,928,336.

It is recommended that the Trust becomes compliant 760 IAC 1-68-2(d)(8).

There were no other significant issues identified as of December 31, 2020, based on the results of this examination.

SUBSEQUENT EVENTS

During 2021, the following measures were taken to improve the financial position of the Trust:

- The Trustees approved a rate increase effective January 1, 2021.
- The Trust transitioned from United Healthcare Services, Inc. and United Healthcare Insurance Company for third party administrative services and stop loss coverage to Anthem Insurance Companies, Inc., which is doing business as Anthem Blue Cross and Blue Shield.
- The Trustees unanimously voted to impose an assessment upon all participating employers equal to 10% of the annual premium amount for each participating employer. This assessment generated approximately \$1.4 million of additional funds for the Trust.
- The Trustees unanimously voted to amend the Trust Agreement to increase the notice period from three (3) to six (6) months advance notice for the withdrawal by a participating employer.
- The Trust transitioned from Spring Value Community Schools to a third party service provider that specializes in financial and accounting services for organizations similar to the Trust.

As a result of these measures and other changes made, the Trust's fund balance approximated \$787,000 and \$2,119,000 as of December 31, 2021 and 2022, respectively, which is in excess of the required minimum amount.

There were no additional events subsequent to the examination date that were considered material events requiring disclosure in this Report of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with assistance from Ingardus, LLC, hereinafter collectively referred to as the "Examiners", performed an examination of the Southern Wellness Trust, as of and for the year ending December 31, 2020.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

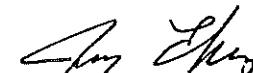
This examination was performed in accordance with those procedures tailored for this examination by the Indiana Department of Insurance. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of the condition of Southern Wellness Trust as of and for the year ending December 31, 2020, as determined by the undersigned.



Angela L. Ohlmann, CPA, CGMA, CFE (Fraud), MCM
Ingardus, LLC
State of: Indiana
County of: Marion

Under the Supervision of:



Jerry Ehlers, CPA, CFE (Financial), AES
Examiner-in-Charge
Indiana Department of Insurance

On this 29 day of April, 2024, before me personally appeared, Angela L. Ohlmann and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: 12/20/2030


Notary Public