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FILED 

SEP 13 2011

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: |) | Docket No. 18-2708-11 |
| |) | |
| ALPS Health Solutions Idaho Lawyers Trust |) | ORDER ADOPTING |
| d/b/a Idaho Lawyers Benefit Plan |) | REPORT OF EXAMINATION |
| |) | AS OF JUNE 30, 2010 |
| Idaho Registration Number: 3888 |) | |
| |) | |
| |) | |
| |) | |

The Report of Examination as of June 30, 2010 (Report) of ALPS Health Solutions Idaho Lawyers Trust d/b/a Idaho Lawyers Benefit Plan (Plan) was completed by examiners of the Idaho Department of Insurance (Department) and signed the 8th day of August 2011 by the Examiner-in-Charge, Lois Haley, CFE. The verified (attested) copy of the Report was filed with the Department effective August 8, 2011. Previously, an initial draft of the Report was delivered electronically (PDF file) to the Plan on July 15, 2011, with the verified Report being transmitted electronically (PDF file) to the Plan on August 10, 2011, to Mr. Dan Seman, Trustee. The final Report, identical to the

verified Report sent to the Plan on August 10, 2011, is attached hereto and incorporated herein in full and identified as Exhibit A.

Pursuant to Idaho Code §§ 41-227(4) and 41-4013(3), the Plan was afforded a reasonable opportunity to review the verified examination Report and to make written submissions regarding relevant matters contained within the Report. No written submissions were received regarding the verified Report.

ORDER

NOW, THEREFORE, after carefully reviewing the above-described Report of Examination, attached hereto as Exhibit A and incorporated as if fully set forth herein, and good cause appearing therefor, it is hereby ordered that the above-described Report, 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 Idaho Code §§ 41-227(5)(a) and 41-4013(3).

DATED and EFFECTIVE at Boise, Idaho, this 13th day of September 2011.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



WILLIAM W. DEAL,
Director

CERTIFICATE OF SERVICE

I hereby certify that, on this 13th day of September 2011, I caused to be served the foregoing document on the following parties in the manner set forth below:

| | | |
|--|---------------|------------------|
| Mr. Dan Seman, Trustee | <u>X</u> | certified mail |
| ALPS Health Solutions Idaho Lawyers Trust | <u> </u> | first class mail |
| 111 N. Higgins Avenue, Suite 200 | <u> </u> | hand delivery |
| Missoula, Montana 59802 | <u> </u> | facsimile |
| e-mail: dseman@alpsnet.com | <u>X</u> | e-mail |

| | | |
|--|---------------|------------------|
| Georgia Siehl, CPA, CFE | <u> </u> | certified mail |
| Bureau Chief / Chief Examiner | <u> </u> | first class mail |
| Idaho Department of Insurance | <u>X</u> | hand delivery |
| 700 W. State St., 3 rd Floor | <u> </u> | facsimile |
| Boise, Idaho 83720-0043 | <u>X</u> | e-mail |
| e-mail: Georgia.Siehl@doi.idaho.gov | | |



William R. Michels, MBA, CPA, CFE
Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

ALPS Health Solutions Idaho Lawyers Trust
d/b/a Idaho Lawyers Benefit Plan
(a self-funded employee health care plan)

as of

June 30, 2010

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State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Boise, Idaho
August 8, 2011

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
P. O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Sections 41-219(1) and 41-4013(1), Idaho Code, we have conducted an examination as of June 30, 2010, of the financial condition and corporate affairs of:

ALPS Health Solutions Idaho Lawyers Trust
d/b/a Idaho Lawyers Benefit Plan
525 West Jefferson Street
Boise, Idaho 83702

hereinafter referred to as the "Trust," at the offices of the Trust's Sponsor and Administrator, ALPS Corporation, in Missoula, Montana and at the Idaho Department of Insurance, Boise, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period May 22, 2008 through June 30, 2010, 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. This examination was conducted in accordance with Sections 41-219(1) and 41-4013(1), Idaho Code. Verification and valuation of assets, liabilities, and 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 auditors' and the Trust's actuary's work in this examination

A Letter of Representation attesting to the Trust's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from the Trust.

The actuarial review of reserves was performed by Lewis & Ellis, Inc., Examining Actuaries, for the Idaho Department of Insurance.

In addition to the Report of Examination, a Management Letter was issued to the Trust by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting, and/or annual statement reporting corrections.

PRIOR EXAMINATION

As noted under *HISTORY AND DESCRIPTION*, the Trust was registered as a self-funded employee health care plan under Chapter 40, Idaho Code, effective May 22, 2008. This is the first comprehensive examination of the Trust since the registration process.

HISTORY AND DESCRIPTION

The ALPS Heath Solutions Idaho Lawyers Trust Group Benefits Plan was established by ALPS Corporation, as Sponsor and Administrator, for the benefit of the Idaho State Bar and its employees and the attorneys and employees of participating employers that employ members of the Idaho State Bar.

In this connection, a Trust was established for the purpose of funding the Benefits under the Plan pursuant to a Trust Agreement. The Trust was organized as a Group Benefits Plan on April 1, 2008. The Trust's medical, dental, and vision benefits are administered by Allegiance Benefit Plan Management, Inc., a third party administrator, licensed in the State of Idaho. The Benefit Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

As part of its initial capitalization, the Trust issued a surplus note to ALPS Corporation. The note was issued on May 16, 2008 in the principal amount of \$250,000 and matures May 15, 2018. See Note (7) to *NOTES TO THE FINANCIAL STATEMENTS* for additional information.

MANAGEMENT AND CONTROL

Holding Company System

The Trust's Sponsor and Administrator, ALPS Corporation, Missoula, Montana, is the ultimate controlling person in an insurance holding company registration system. ALPS Corporation is a holding company for insurance, professional services, financial services and (IRS Code) 1031 exchange service entities.

Trust Agreement

The Trust is governed by a Trust Agreement effective April 1, 2008 that was executed by the Trust, the Trustees, and the Sponsor and Administrator. Amendment Number 1 to the Trust Agreement, effective December 31, 2008, changed the Trust's fiscal year-end from December 31st to June 30th.

The Trust Agreement sets forth the purpose of the Trust, capitalization, Board of Trustee terms, functions and powers, annual and regular meetings, and fiduciary standards, among other things.

Pursuant to Joinder Agreements, Employers adopt the Trust as a means of funding the benefits to be offered to make available under the Benefit Plan to the Employer's employees and their beneficiaries. The Employer agrees to participate in the Plan for a minimum of three years, commencing on the effective date of the Joinder agreement and continuing until the third anniversary of such. Subsequent to the examination date, the Joinder agreement was revised to reflect a uniform one year commitment in all Plan documents. This revision was approved by the Board of Trustees at their meeting held on July 22, 2010.

Exhibit B Form of Oath of Trustee is signed and dated by all Trustees indicating they accept their appointment as Trustee and agree to act in such capacity in accordance with the Trust and the Plan. The Oath further indicates that the Trustees acknowledge they have been apprised of their individual and co-fiduciary liabilities and obligations and their rights and obligations under the Trust and the Plan.

The Trust Agreement was filed with the Department as part of the application process set forth under Section 41-4005(2)(g), Idaho Code. The Certificate of Registration was approved by the Department on May 22, 2008.

In the February 13, 2009 Trustee minutes, it was noted that Amendment Number 1 was tentatively approved by the Department of Insurance subject to adoption and approval by the Board of Trustees. The Trustees adopted Amendment Number 1 to the Trust

Agreement on December 22, 2009. In a letter to the Trust dated February 2, 2009, the Department stated that it had no objection to the Trust changing its fiscal year-end from December 31st to June 30th. The Department received a copy of the amendment on May 18, 2009.

Board of Trustees

Pursuant to the Trust Agreement, for the period beginning April 1, 2008 and continuing until the Board Transition Date, the Trust is administered by a Board of Trustees. The Board Transition Date is the later date to occur of either December 31, 2012 or the date the Trust has fully paid all sums due under the surplus note. The surplus note, which is discussed later in this report, is due May 15, 2018, but may be prepaid at any time.

The Board of Trustees consists of five positions, designated and identified by letters "Trustee A" through "E". ALPS Corporation and the Idaho State Bar approved, appointed and designated the following individuals to serve as the initial Trustees of the Trust.

| <u>Initial Board of Trustees</u> | <u>Designation</u> | <u>Occupation & Business Address</u> |
|----------------------------------|--------------------|--|
| Jordan T. Lind | Trustee A | ALPS Corporation; resigned in 2009 President & CEO, ALPS Corporation, |
| Robert Warren Minto, Jr. | Trustee B | Missoula, Montana Attorney, Siegel, Barnett & Schultz, LLP |
| Jeffrey T. Sveen | Trustee C | Aberdeen, South Dakota |
| Terrence Roy White | Trustee D | Lawyer, White Peterson P.A., Nampa, Idaho |
| Edward Simon | Trustee E | Attorney, Edward Simon, Ketchum, Idaho |

As noted above, Jordan T. Lind resigned in 2009 and was replaced by Daniel John. Seman, Director, ALPS Risk and Insurance Services, Inc., Missoula, Montana.

Until the Board Transition Date occurs, the term of each Trustee position shall be indefinite until the resignation, termination or death or the Trustee is unwilling or otherwise unable to serve. The Board shall select a Chair, Vice-Chair, and Secretary from among their number or from ALPS Corporation staff. Each officer serves for a period determined by the Trustees.

Pursuant to Article 6.1 of the Trust Agreement, the Board of Trustees shall hold a regular annual meeting, determine, and fix a date, time and place for such meeting. The Board may provide for additional regular meetings. Article 6.2 allows the Chair or a majority of the Board may call or request a special meeting of the Board at any time. Under Article 6.9, Board action may be taken without a meeting if all Trustees agree and such action is evidenced by a written consent. A review of the minutes indicated the Trust was in compliance with Article 6.9 with respect to Trustee meetings.

Under Article 8.3(b), the annual meeting of the Employers shall be held on or before June 30 of each fiscal year on a date selected by the Board. Employers may call a special

meeting under Article 8.3(c) and according to Article 8.3(f), may act without a meeting; provided there's a written concurrence by at least two-thirds of the Employers.

According to the Trust, there have been no Employers' meetings held to date. Consequently, the Trust is not in compliance with the Trust Agreement regarding annual Employers' meetings. Therefore, it is recommended that an annual meeting of the Employers be held in compliance with Article 8.3(b) of the Trust Agreement.

Officers:

The following persons were serving as Officers of the Trust at June 30, 2010:

Principal Officers

Terrence Roy White

Edward Simon

Chair of the Trust

Secretary

Committees:

The Trust has not established any committees.

Conflict of Interest

The Trust did not have a conflict of interest procedure in place during the examination period. Therefore, it is recommended that the Trust implement a conflict of interest procedure and draft conflict of interest statements that address Section 41-4014, Idaho Code, Prohibited Pecuniary Interests in Plan Management. Conflict of interest statements should be executed by the Sponsor and Administrator and all of the Trustees. The conflict of interest statements should be reviewed by the Board of Trustees and such review documented in the Board of Trustee minutes. Furthermore, the conflict of interest statements should be signed annually by the Sponsor and Administrator, ALPS Corporation, and the Board of Trustees.

Contracts and Agreements

The following significant contracts and agreements were in effect as of the examination date:

Trust Agreement

The ALPS Health Solutions Idaho Lawyers Trust Agreement is entered into between the Trustees and each Employer that adopts the Plan and subscribes to the Trust Agreement by executing a Joinder Agreement. These agreements were previously discussed under the Caption, *MANAGEMENT AND CONTROL*.

Investment Management Agreement

The Trust executed an Investment Management Agreement with Peak Investment Management, Ltd. The agreement was effective October 1, 2007 and continues until terminated by either party. The Trust's investment policy is set forth in Schedule A, Part IV – Financial Circumstances and Information. Pursuant to Schedule B, the annual investment advisor fee is a percentage of the total asset value. This agreement was accepted by the Trustees at their meeting of March 10, 2008. Peak Investment

Management Ltd. is owned by the Trust's Sponsor and Administrator, ALPS Corporation.

Trust Administration and Marketing Services Agreement

The Trust executed a Trust Administration and Marketing Services Agreement with its Sponsor and Administrator, ALPS Corporation. The agreement is effective April 1, 2008 through December 31, 2011. During the term of this agreement, ALPS Corporation has the sole and exclusive power and authority to determine the manner, methodologies, procedures, systems, resources and personnel to be utilized by itself in providing administrative services to the Plan and Trust. This agreement was accepted by the Trustees at their meeting on March 10, 2008. The agreement was amended effective April 1, 2008 to include termination conditions.

Non Managed Custodial Agency Agreement

The Trust executed a non-managed custodial agency agreement with First Interstate Bank. The agreement was entered into on May 14, 2008 and may be terminated at any time by either party upon thirty days advance written notice. The custodial agreement contained the NAIC safeguards through an addendum effective May 15, 2008 executed by representatives of the Trust and First Interstate Bank.

Subsequent to the examination date, the Trustees passed a recommendation to have Peak Investment Management, Ltd. as asset manager. A motion was also approved to terminate the existing relationship with First Interstate Bank and to move monies under Peak Management. In addition, the Trustees approved the resulting account would need to be appointed and the designation of the custodian delegated to Trustee, Dan Seman.

Administrative Services Agreement

The Trust entered into an Administrative Services Agreement with Allegiance Benefit Plan Management, Inc. The agreement is effective July 1, 2008 through June 30, 2011 and continuing thereafter until terminated pursuant to terms within the contract. The TPA provides plan administrative services including claims processing and underwriting for fees set forth in the agreement. This agreement was accepted by the Trustees at their meeting of March 10, 2008. Subsequent to the examination date, Actuaries Northwest began performing the Plan underwriting function.

Subrogation and Reimbursement Services functions are performed under Appendix B to the Administrative Services Agreement while a Wellness Program services are provided under an appendix. COBRA administration is provided under Appendix C, through a companion administrative services agreement discussed below.

COBRA Administrative Services and Certification of Creditable Coverage

The COBRA Administrative Services and Certification of Creditable Coverage Agreement was entered into between the Trust and Allegiance COBRA Services, Inc. on July 15, 2008. The agreement was effective July 1, 2008 through June 30, 2011 unless terminated earlier in accordance with the agreement. The agreement may be renewed for an additional two-year renewal term upon mutual agreement in writing by the parties.

The fees for services provided under the agreement are set forth in the fee schedule contained in Appendix A of Administrative Services Agreement with Allegiance Benefit Plan Management, Inc.

Pharmacy Benefits Management

The Trust entered into a pharmacy benefit management agreement with Connecticut General Life Insurance Company (CIGNA) effective January 1, 2010. The initial term of the agreement is one year. The agreement automatically renews for one year terms unless written notice of termination is provided by either party with at least thirty days prior written notice. Services provided under the agreement include eligibility and benefit set-up, drug claim adjudication, and pharmacy network, among other things.

The services under this agreement relate to the pharmacy services agreement between CIGNA and Allegiance Benefit Plan Management, Inc. Such agreement allows Allegiance and its clients, including the Trust, to receive pharmacy services from CIGNA through CIGNA's Pharmacy management division, a pharmacy benefit manager.

Prior to execution of the agreement with CIGNA, pharmacy benefit management services were provided by Great-West Life & Annuity Insurance Company.

The Investment Management Agreement, Trust Administration and Marketing Services Agreement, Non Managed Custodial Agency Agreement, and the Administrative Services Agreement were filed with the Idaho Department of Insurance as part of the application process set forth under Section 41-4005(2)(g), Idaho Code. The Certificate of Registration was approved by the Department on May 22, 2008.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

As previously reported, the Trust is governed by a Trust Agreement that is executed by the Trust, the Trustees, and the Sponsor and Administrator.

Minutes of Meetings

The minutes of the meetings of the Board of Trustees for the period May 22, 2008 through June 30, 2010 and subsequent thereto, were reviewed. This review indicated that a quorum was present at all Board of Trustee's meetings held during the examination period and that significant transactions and events were properly authorized or approved. Investment guidelines set forth under Article 5.1(d) of the Trust Agreement and Section 41-4009, Idaho Code were included in the agreement with Peak Investment Management Ltd. This agreement was accepted by the Board of Trustees on March 10, 2008.

FIDELITY BOND AND OTHER INSURANCE

A fiduciary fidelity bond for the protection of the Trust was maintained through the period under examination. The fiduciary fidelity bond coverage maintained by the Trust met the requirements specified in section 41-4014(3), Idaho Code.

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

TERRITORY AND PLAN OF OPERATION

The Trust is registered in the State of Idaho as a self-funded employee health care plan organized under Title 41, Chapter 40, Idaho Code. Certificate of Registration Number 3888 was originally issued to the Trust effective May 22, 2008. The Certificate of Registration was subsequently amended to add an assumed business name, Idaho Lawyers Benefit Plan, effective July 3, 2008.

The Trust's principal business address is in Boise, Idaho. However, the Trust's books and records are maintained at the offices of ALPS Corporation located in Missoula, Montana.

The Trust through the Benefit Plan provides medical, dental, vision, and pharmacy benefits for eligible members as specified in the Plan. All medical and dental benefits are provided from the assets of the Trust. Participating Employers are eligible to participate in the Trust on behalf of the Plan if they are members of the Idaho State Bar and meet the requirements set forth in the Plan documents. See *INSURANCE PRODUCTS AND RELATED PRACTICES, Policy Forms and Underwriting*, for additional information.

STATUTORY AND SPECIAL DEPOSITS

The Trust is not required to maintain statutory or special deposits with the Idaho Department of Insurance.

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GROWTH OF THE TRUST

The Trust's growth for the years indicated, taken from organizational information (2008*) and from the audited financial statements for the years 2008 through 2010 is shown in the following schedule:

| <u>Year</u> | <u>Assets</u> | <u>Liabilities</u> | <u>Surplus</u> | Net Change in <u>Surplus</u> |
|-------------|---------------|--------------------|----------------|---------------------------------|
| 4/1/08* | \$250,000 | \$ 30,000 | \$220,000 | (\$ 30,000) |
| 6/30/09 | 277,887 | 168,188 | 109,699 | (110,301) |
| 6/30/10** | 285,425 | 202,555 | 82,870 | (26,829) |

Net deficits to surplus over the examination period were due primarily to medical, dental and vision claims expenses in excess of contribution revenue. In addition, stop loss reinsurance costs were high due to the start-up nature of the Trust.

* Balances at inception.

**As determined by Examination.

REINSURANCE

Assumed

The Trust did not assume any reinsurance business during or subsequent to the examination period.

Ceded

The Board of Trustees accepted the bid for an excess of loss reinsurance agreement with Gerber Life Insurance Company, White Plains, New York, on March 27, 2008. The Trust subsequently executed the agreement which was effective August 1, 2008 through August 1, 2009. Under this agreement, Gerber agreed to pay 100 percent of medical and pharmacy claims in excess of the reinsurance limit of \$75,000. During the period under examination and subsequent thereto, there were no claims in excess of the retention limit of \$75,000.

The agreement was renewed for the period August 1, 2009 through 2010 and subsequently renewed for the period August 2010 through August 2011. The reinsurance premium set forth under the agreement was based on the number of participants or families per month.

The reinsurance agreement was submitted to the Idaho Department of Insurance in connection with the Sponsor's application for the self-funded employee health care plan. The application was approved by the Department on May 22, 2008.

The reinsurance agreement contains the standard insolvency, arbitration, and clerical errors language.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

As previously reported, the Trust provides medical, dental, vision, and pharmacy benefits for eligible members as specified in the Benefit Plan. All medical and dental benefits are provided from the assets of the Trust. Participating Employers are eligible to participate in the Trust on behalf of the Plan if they are members of the Idaho State Bar who is either a sole proprietor operating a law practice as a licensed attorney, or who employs, through a legally recognized entity under the laws of the State of Idaho, at least one employee to carry out the practice of law, be a resident of and have a principal place of business located in the State of Idaho, be accepted by the Trustee as a participant in the Trust; agree to make contributions to the Trust Fund on behalf of the employees or their beneficiaries; subscribe to and adopt the Trust and the Plan in the manner prescribed by the Trustees; agree to the terms of the Joinder Agreement; pay 75 percent or more of the single employee contribution for medical, dental or vision benefits for each employee; and have been in business for three months or more.

Employees are eligible to participate in the Plan if they are employed by a participating Employer on a continuing and regular basis for the minimum number of hours required by the participating Employer. In addition, the participating Employer must have at least two employees that will be covered at the time of the initial enrollment and continuously maintain at least two active covered employees, as defined by the Plan. Terminated employees are allowed to continue coverage under the Plan as specified by COBRA standards. All employees electing medical coverage are provided with the basic dental and vision coverage as part of their coverage.

Subsequent to the examination date, the Trust was given permission by the Idaho Department of Insurance to market its products to sole practitioners in the State of Idaho.

The Benefit Plan is marketed by the Director of Sales, who is employed by the Trust's Sponsor and Administrator, ALPS Corporation.

Treatment of Policyholders

Paid Claims

A statistical sample, with a 90 percent confidence level of claims incurred and paid during 2010 was reviewed. This review indicated that the Trust's third party administrator, in general, settled the claims promptly and in accordance with the Benefit Plan.

Complaint Register

The third party administrator maintains the Trust's statutory complaint log. A review of the log indicated that the Trust's complaint register maintained by Allegiance Benefit Plan Management, Inc. is in substantial compliance with Section 41-1330, Idaho Code.

Fraudulent Claims

The Trust's third party administrator indicated that no suspicious claims were noted.

ACCOUNTS AND RECORDS

General Accounting

The Trust's accounts and records are maintained by its Sponsor and Administrator, ALPS Corporation. ALPS Corporation utilizes SunGard's Enterprise Accounting System software to process financial information. The financial reports are prepared on a GAAP basis pursuant to Section 41-4011(2), Idaho Code, with one exception for the surplus note (See Note 7 for further discussion). The surplus note is recorded as a component of surplus in compliance with Section 41-2841, Idaho Code. The Trust's third party administrator, Allegiance Benefit Plan Management, Inc., utilizes LumiX as its claims processing system. Claim checks are distributed through a third party administrator under contract with Allegiance.

As previously reported, the Trust changed its fiscal year from December 31st to June 30th pursuant to Amendment Number 1 to the Trust Agreement.

Independent Accountants

The annual independent audits of the Trust for the years 2008 through 2010 were performed by Anderson Zurmehlen, Missoula, Montana. The financial statements in each report were prepared in conformity with generally accepted accounting principles, except for the inclusion of the surplus note as a component of surplus pursuant to Section 41-2841, Idaho Code. There was some reliance on the 2010 audit report and workpapers in this examination of the Trust.

Actuarial Opinion

The June 30, 2010 estimated incurred but not reported obligations were determined by the Trust and reviewed by Kelly Grebinsky, FSA, MAAA, FCA, of Actuaries Northwest, the Trust's actuary.

The June 30, 2009 actuarial report and opinion stated the following:

The calculations and projections have been prepared using sound actuarial methods consistently applied, and the results are stated in accordance with sound actuarial principles. All calculations and projections are based on actuarial assumptions that are appropriate for the purpose of this report, and provision has been made for all actuarial factors that should be considered.

The actuarial items in the June 30, 2010 financial statement are as follows:

| | |
|---|----------|
| Reserve for Claims Incurred But Not Paid (IBNP) | |
| and Incurred But Not Reported (IBNR) | \$66,382 |

The actuarial review of estimated incurred but not reported obligations was performed by Lewis and Ellis, Inc., Examining Actuary, for the Idaho Department of Insurance.

See the "NOTES TO FINANCIAL STATEMENTS" section later in this report for further discussion regarding the Department's Examining Actuary's review and analysis

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Assets, Liabilities and Surplus as of June 30, 2010

Statement of Revenues, Expenses and Change in Surplus, for the Fiscal Year Ending June 30, 2010

Surplus Account for the Fiscal Year Ending June 30, 2010

Reconciliation of Net Change in Surplus, May 22, 2008, through June 30, 2010

The rest of this page is intentionally blank.

STATEMENT OF ASSETS, LIABILITIES AND SURPLUS

As of June 30, 2010

| | Per Examination and Trust |
|---|---------------------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents (Note 1) | \$284,501 |
| Prepaid expenses and deposits | <u>924</u> |
| Total assets | <u>\$285,425</u> |
| <u>LIABILITIES</u> | |
| Benefits payable (Note 2) | \$ 27,399 |
| Accrued liabilities (Note 3) | 62,995 |
| Estimated incurred but not reported obligations (Note 4) | 66,382 |
| Line of credit (Note 5) | 25,000 |
| Note payable (Note 6) | <u>20,779</u> |
| Total liabilities | <u>\$202,555</u> |
| <u>SURPLUS</u> | |
| Surplus note (Note 7) | \$250,000 |
| Accumulated deficit | <u>(167,130)</u> |
| Total surplus | <u>\$82,870</u> |
| Total liabilities and surplus | <u>\$285,425</u> |

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN SURPLUS
For the Fiscal Year Ending June 30, 2010

| | Per Examination And Trust |
|--|------------------------------|
| <u>REVENUE</u> | |
| Contributions | \$663,918 |
| Interest | <u>116</u> |
| Total additions | <u>\$664,034</u> |
| <u>EXPENSES</u> | |
| Medical, dental, and vision claims expense, net of stop loss credits | \$432,026 |
| Operating costs | 1,808 |
| Stop loss reinsurance | 104,210 |
| Administrative fees | 108,139 |
| Professional fees | 22,955 |
| Interest expense | <u>21,725</u> |
| Total deductions | <u>\$690,863</u> |
| <u>NET CHANGE IN SURPLUS</u> | <u>(\$26,829)</u> |
| <u>TOTAL SURPLUS</u> | |
| As of June 30, 2009 | <u>\$109,699</u> |
| Surplus contributed | <u>0</u> |
| As of June 30, 2010 | <u>\$ 82,870</u> |

SURPLUS ACCOUNT
For the Fiscal Year Ending June 30, 2010

| | <u>Per Trust</u> | <u>Examination Changes</u> | <u>Per Examination</u> |
|------------------------|----------------------|--------------------------------|----------------------------|
| Surplus, June 30, 2009 | <u>\$ 109,699</u> | <u>\$ 0</u> | <u>\$ 109,699</u> |

GAINS AND (LOSSES) IN SURPLUS

| | | | |
|---------------------------------------|--------------------|-------------|--------------------|
| Total additions over total deductions | <u>\$ (26,829)</u> | <u>\$ 0</u> | <u>\$ (26,829)</u> |
| Net change in surplus | <u>\$ (26,829)</u> | <u>\$ 0</u> | <u>\$ (26,829)</u> |
| Surplus, June 30, 2010 | <u>\$ 82,870</u> | <u>\$ 0</u> | <u>\$ 82,870</u> |

RECONCILIATION OF NET CHANGE IN SURPLUS,
May 22, 2008 through June 30, 2010

| | <u>4/1/2008</u> | <u>6/30/2009</u> | <u>6/30/2010</u> |
|--|------------------|------------------|--------------------|
| Surplus, | | | |
| At inception, 4/1/2008 | <u>\$ 0</u> | <u>\$250,000</u> | <u>\$ 109,699</u> |
| Surplus contributed, Surplus Note (Note 7) | <u>\$250,000</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Total additions over total deductions | <u>0</u> | <u>(140,301)</u> | <u>(26,829)</u> |
| Net change in surplus | <u>\$250,000</u> | <u>(140,301)</u> | <u>\$ (26,829)</u> |
| Surplus, June 30, current year | <u>\$250,000</u> | <u>\$109,699</u> | <u>\$ 82,870</u> |

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NOTES TO THE FINANCIAL STATEMENTS

Note (1) Cash and cash equivalents \$284,502

Cash is comprised of cash balances maintained in the premium checking, claims payment, and operating cash bank accounts. The cash equivalent consists of a money market fund held by First Interstate Bank under the non-managed custodial agency agreement discussed under *MANAGEMENT AND CONTROL, Contracts and Agreements*.

Note (2) Benefits Payable \$27,399

Benefits payable represent claims processed by the Trust's third party administrator for which a funding request was pending at June 28, 2010. A review of the subsequent period bank statement indicated that substantially all checks included within the liability were paid by the bank in July 2010.

Note (3) Accrued Liabilities \$62,995

ALPS Corporation paid certain start-up expenses on behalf of the Trust (primarily actuarial expenses) totaling \$18,458.00. The Trust reports these balances within "Accrued Liabilities". These payables have been on the books since 2008 and have not yet been settled in their entirety. It would be more appropriate to reclassify these accrued expenses as "Payable to Sponsor" or converted to "Notes Payable". The remaining balances in this account represent accrued interest payable on the line of credit (Note 5), note payable (Note 6) and surplus note (Note 7).

Note (4) Estimated incurred but not reported obligations \$66,382

Mike Mayberry, FSA, MAAA, of Lewis & Ellis, Inc. was retained by the Department to perform the actuarial portion of the examination. This included an examination of the actuarial assumptions and methods used in determining the actuarial liabilities. Based on this analysis, it is the Examining Actuary opinion that the Trust's incurred but not reported (IBNR) liability is stated appropriately. It is also the Examining Actuary's opinion that the methodology employed by the Trust is appropriate.

Note (5) Line of Credit \$25,000

The Trust maintained a line of credit of \$250,000 at First Interstate Bank. The line is unsecured and carried an interest rate of 6 percent at June 30, 2010. The line of credit matures August 30, 2011. The outstanding balance at June 30, 2010 was \$25,000.

Note (6) Note payable \$20,799

The Trust executed a negotiable promissory note with ALPS Corporation on July 1, 2008 in the amount of \$30,000. The promissory note is payable together with accrued

interest at 8 percent per annum calculated on a 365 day basis. The note is payable in three equal annual installments of \$11,641.01 each, due and payable beginning on July 1, 2009 through July 1, 2011. The promissory note may be prepaid without penalty. The unpaid balance and accrued interest is immediately due and payable if the Trust fails to make timely payments within 30 days of the installment due dates.

A review of the minutes indicated that the Board of Trustees did not approve the promissory note. It was also noted that the promissory note was not submitted to the Idaho Department of Insurance. It is recommended that transactions of this nature be approved by the Board of Trustees and filed with the Department.

Note (7) Surplus Note

\$250,000

As part of its initial capitalization, the Trust issued a surplus note to ALPS Corporation. The note was issued on May 16, 2008 in the principal amount of \$250,000 and matures May 15, 2018. This principal amount was determined by the Trust's actuary, Kelly Grebinsky of Actuaries Northwest.

The note has a fixed rate at 8.00 percent per annum. Interest accrues on the unpaid principal balance computed on a 365-day year. Accrued interest is paid on a quarterly basis commencing on October 15, 2009 and continuing until the unpaid principal is paid in full. Payments of principal and or interest may be made only with prior written approval from the Department. Until such time, the obligation of the Trust to make such payment shall not form a part of the Trust's legal liabilities. Article 3 of the Trust Agreement gives the Trustees the authority to issue the surplus note. As previously reported, the surplus note is recorded as a component of surplus in compliance with Section 41-2841, Idaho Code.

The surplus note was filed with the Department as part of the application process set forth under Section 41-4005(2)(g), Idaho Code. The Certificate of Registration was approved by the Department on May 22, 2008.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of June 30, 2010, the Trust had assets of \$285,425, liabilities of \$202,555, and total surplus of \$82,870. Total surplus exceeded 30 percent of the sum of benefits payable and estimated incurred but not reported obligations of \$62,995 and \$66,382, respectively. Therefore, the Trust was in compliance with Section 41-4010(3), Idaho Code at June 30, 2010.

Comments and Recommendations

Page

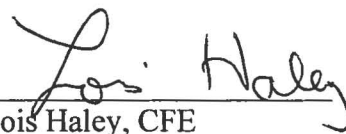
- 5 It is recommended that an annual meeting of the Employers be held in compliance with Article 8.3 of the Trust Agreement.
- 5 It is recommended that the Trust implement a conflict of interest procedure and draft conflict of interest statements that address Section 41-4014, Idaho Code, Prohibited Pecuniary Interests in Plan Management. Conflict of interest statements should be executed by the Sponsor and Administrator and all of the Trustees. The conflict of interest statements should be reviewed by the Board of Trustees and such review documented in the Board of Trustee minutes. Furthermore, the conflict of interest statements should be signed annually by the Sponsor and Administrator, ALPS Corporation, and the Board of Trustees.
- 16 It is recommended that transactions of this nature (promissory note) be approved by the Board of Trustees and filed with the Department.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Trust, and the employees of its Sponsor and Administrator, ALPS Corporation as well as the employees of its third party administrator, Allegiance Benefit Plan Management, Inc., in conducting the examination.

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

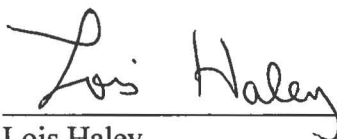
Respectfully submitted,


Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

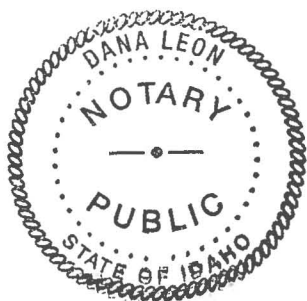
State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of ALPS Health Solutions Idaho Lawyers Trust d/b/a Idaho Lawyers Benefit Plan for the period from May 22, 2008, through June 30, 2010, that the information obtained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.



Lois Haley
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 8th day of August, 2011 at Boise, Idaho.


Notary Public

My Commission Expires: 11-03-2011