

EXAMINATION REPORT
of
U.S. LEGAL PLANS, INC.
Jacksonville, Florida
as of
December 31, 2017

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of U.S. Legal Plans, Inc. as of December 31, 2017, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 12th day of July 2018

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 3, 2018

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

U.S. LEGAL PLANS, INC.

Jacksonville, Florida

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

This is the first full scope financial condition examination of the Corporation by representatives of the State Corporation Commission's Bureau of Insurance (Bureau). This examination covers the period from initial licensure on June 10, 2013 through December 31, 2017.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during

the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

HISTORY

The Corporation became licensed in Virginia as a legal services plan pursuant to Chapter 44 of Title 38.2 of the Code of Virginia on June 10, 2013.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Corporation shall be managed by a board of directors consisting of one director. The director shall be elected at the annual shareholder meeting and serve a term of one year or until a successor has been elected and qualified. The officers of the Corporation shall be a President and a Secretary. The President shall be the chief executive officer and shall preside at all meetings of the board of directors. The officers shall be elected annually by the board of directors and each officer shall serve a one year term or until a successor has been elected and qualified.

At December 31, 2017, the Board and Officers were as follows:

| <u>Director</u> | <u>Principal Occupation</u> |
|----------------------|---|
| Jean Heidemarie Odom | Certified Public Accountant Meridian Technologies Jacksonville, Florida |

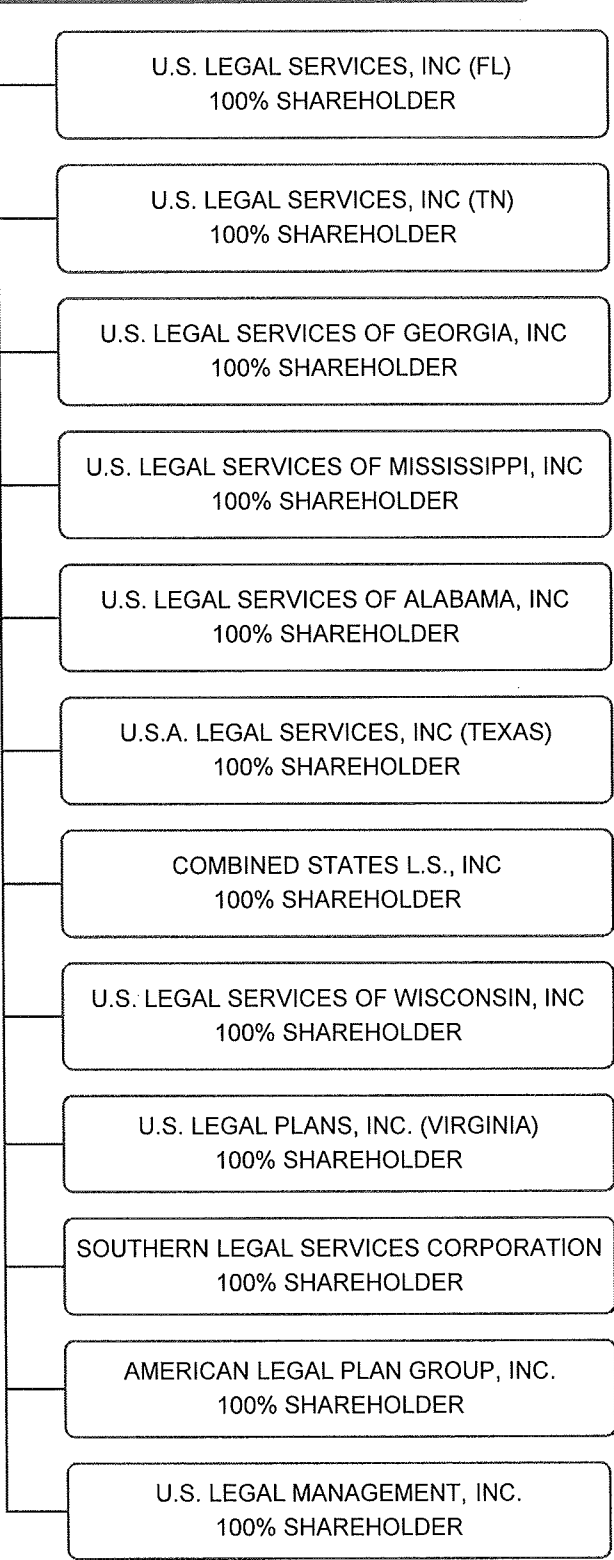
Officers

| | |
|-----------------|-------------------------|
| Marie M. Forbes | President and Secretary |
|-----------------|-------------------------|

RELATED PARTIES

According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common stock with a par value of \$1 per share. At December 31, 2017, there were 1,000 issued and outstanding shares, which were owned by Marie M. Forbes Living Trust U/A. In addition, Ms. Forbes owns several legal plans. The following chart illustrates the relationship between the owner and affiliates:

**Marie M. Forbes
President**



TRANSACTIONS WITH AFFILIATES

Service Agreement

Effective January 1, 2015, the Corporation entered into an amended service agreement with U.S. Legal Management, Inc. (USLM). This agreement shall renew automatically in one year increments, unless either party gives the other at least thirty days prior notice of termination or non-renewal prior to the end of the existing term. USLM shall provide certain services to the Corporation, including, but not limited to:

- a. Operations and administration including payment of the operating and administrative expenses incurred directly with operations.
- b. Claims administration including intake of client phone calls and assigning of provider attorneys to insureds.
- c. Premium collection.
- d. Attorney management including attorney recruitment and authorization.
- e. Quality control including receipt and resolution of insured inquiries and issues.
- f. Internal control including auditing of claims and internal processes.
- g. Accounting including general ledger maintenance and financial statement preparation.
- h. Cash and investment management, including maintaining and monitoring all cash and investment accounts to ensure maximum return on all investments.
- i. Regulatory including monitoring and preparing required filings for State Insurance Departments.
- j. Marketing.
- k. IT support.

USLM shall be paid a monthly fee based on monthly premium revenue. During 2017, the Corporation incurred \$6,000 in fees related to this agreement.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the entire Commonwealth of Virginia. Participation is offered to individuals, employees of a participating employer, or members of a participating group. Premiums are paid primarily through payroll deductions. The Corporation has contracted with various participating law firms to provide covered services to members. The members have free choice of participating attorneys.

There are two types of plans:

CDL Defender Plan: This plan is designed for commercial truckers and trucking companies. This plan provides attorneys for personal legal matters concerning commercial drivers license for moving and non-moving violations and major accident representation, a free initial consultation and discounted attorney fees for various legal matters including, but not limited to divorce benefits, simple and living wills.

Family Defender Plan: Covered services provided under this plan, within limits specified in the contract, include, but are not limited to: advice and review/consultation services; hearings; civil matters; family law; IRS audit protection and collection defense; immigration; juvenile court; defense of criminal charges; wills, trusts and estate administration; real estate transactions and traffic and driving privilege protection. Generally, attorney fees are either a set fee, an hourly fee or a one-third reduction from normal fees. All related court costs and out of pocket expenses are the responsibility of the plan member.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the five-year period ending December 31, 2017. The data is compiled from the Corporation's filed Annual Statements and the current examination report.

| <u>Year</u> | <u>Total Admitted Assets</u> | <u>Total Liabilities</u> | <u>Capital and Surplus</u> |
|-------------|--------------------------------------|------------------------------|------------------------------------|
| 2013 | \$38,786 | \$12 | \$38,774 |
| 2014 | 41,365 | 0 | 41,365 |
| 2015 | 47,550 | 1,636 | 45,914 |
| 2016 | 49,848 | 4,796 | 45,052 |
| 2017 | 53,514 | 7,422 | 46,092 |

| <u>Year</u> | <u>Total Revenue</u> | <u>Legal Expenses</u> | <u>Administrative Expenses</u> | <u>Net Income (Loss)</u> |
|-------------|--------------------------|---------------------------|------------------------------------|----------------------------------|
| 2013 | \$0 | \$0 | \$9,226 | (\$9,226) |
| 2014 | 140 | 0 | 12,549 | (12,409) |
| 2015 | 9,958 | 3,729 | 11,810 | (5,581) |
| 2016 | 16,834 | 4,560 | 12,911 | (637) |
| 2017 | 18,204 | 5,170 | 11,994 | 1,040 |

The Corporation's enrollment data at year-end is illustrated as follows:

| <u>Year</u> | <u>Number of Members</u> |
|-------------|------------------------------|
| 2013 | 0 |
| 2014 | 0 |
| 2015 | 81 |
| 2016 | 94 |
| 2017 | 120 |

CAPITAL AND SURPLUS

At December 31, 2017, the Corporation's capital and surplus was \$46,092. Capital and surplus is comprised of common capital stock, gross paid in and contributed surplus and unassigned funds. The Corporation had 1,000 shares of \$1 par value common stock issued and outstanding, with gross paid in and contributed surplus of \$72,000 and unassigned funds of (\$26,908). The Bureau requires the Corporation to maintain total reserves and unassigned funds of at least \$35,000.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2017. No examination adjustments were made to the statutory financial statement filed by the Corporation with the Bureau for the period ending December 31, 2017.

ASSETS

| | <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|---|------------------------|------------------------------|-------------------------------|
| Cash and short-term investments | \$51,866 | \$0 | \$51,866 |
| Uncollected premiums in the course of collection | <u>1,648</u> | <u>0</u> | <u>1,648</u> |
| Total assets | <u><u>\$53,514</u></u> | <u><u>\$0</u></u> | <u><u>\$53,514</u></u> |

LIABILITIES, CAPITAL AND SURPLUS

| | |
|--|------------------------|
| Claims unpaid | \$3,710 |
| General expenses due or accrued | 3,182 |
| Amounts due to parent, subsidiaries and affiliates | <u>530</u> |
| Total liabilities | <u>\$7,422</u> |
| Common capital stock | \$1,000 |
| Gross paid in and contributed surplus | 72,000 |
| Unassigned funds (surplus) | <u>(26,908)</u> |
| Total capital and surplus | <u>\$46,092</u> |
| Total liabilities, capital and surplus | <u><u>\$53,514</u></u> |

STATEMENT OF REVENUE AND EXPENSES

| | |
|---------------------------------|-----------------------|
| Net premium income | <u>\$18,204</u> |
| Total revenues | <u>\$18,204</u> |
| Legal benefits | \$5,170 |
| General administrative expenses | <u>11,994</u> |
| Total underwriting deductions | <u>\$17,164</u> |
| Net underwriting gain | <u>\$1,040</u> |
| Net income | <u><u>\$1,040</u></u> |

RECONCILIATION OF CAPITAL AND SURPLUS

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Capital and surplus prior reporting year | <u>\$0</u> | <u>\$38,774</u> | <u>\$41,365</u> | <u>\$45,914</u> | <u>\$45,052</u> |
| Net income or (loss) | (\$9,226) | (\$12,409) | (\$5,581) | (\$637) | \$1,040 |
| Capital changes: | | | | | |
| Paid in | 1,000 | 0 | 0 | 0 | 0 |
| Surplus adjustments: | | | | | |
| Paid in | 47,000 | 15,000 | 10,000 | 0 | 0 |
| Aggregate write-ins for gains or (losses) in surplus | <u>0</u> | <u>0</u> | <u>130</u> | <u>(225)</u> | <u>0</u> |
| Net change in capital and surplus | <u>\$38,774</u> | <u>\$2,591</u> | <u>\$4,549</u> | <u>(\$862)</u> | <u>\$1,040</u> |
| Capital and surplus end of reporting year | <u><u>\$38,774</u></u> | <u><u>\$41,365</u></u> | <u><u>\$45,914</u></u> | <u><u>\$45,052</u></u> | <u><u>\$46,092</u></u> |

CASH FLOW**CASH FROM OPERATIONS**

| | |
|---|-----------------|
| Premiums collected net of reinsurance | \$17,955 |
| Total | <u>\$17,955</u> |
| Benefit and loss related payments | \$3,290 |
| Commissions, expenses paid and aggregate write-ins for deductions | 11,248 |
| Total | <u>\$14,538</u> |
| Net cash from operations | <u>\$3,417</u> |

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

| | |
|---|--------------|
| Cash (applied): | |
| Other cash applied | <u>(\$1)</u> |
| Net cash from financing and miscellaneous sources | <u>(\$1)</u> |

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

| | |
|---|------------------------|
| Net change in cash and short-term investments | \$3,416 |
| Cash and short-term investments: | |
| Beginning of the year | <u>48,450</u> |
| End of the year | <u><u>\$51,866</u></u> |

ACKNOWLEDGEMENT

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Gerald Hicks and Ben MacKercher participated in the work of the examination.

Respectfully submitted,



John Drear, CFE

Principal Insurance Financial Analyst



STATE CORP. COMMISSION
2018 JUL -9 AM 9:18
BUREAU OF INSURANCE

July 6, 2018

David H. Smith, CFE, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

RE: U.S. Legal Plans, Inc.
Examination Report as of December 31, 2017

Dear Mr. Smith

This letter is to provide written acknowledgement of receipt of the Examination Report for U.S. Legal Plans, Inc. as of December 31, 2017. We acknowledge that the report does not contain any recommendations for corrective action.

Sincerely,

Marie M. Forbes
President