STATE OF OREGON

DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

MODA HEALTH PLAN, INC.
PORTLAND, OREGON

AS OF

DECEMBER 31, 2019

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DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

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OF

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NAIC COMPANY CODE 47098

AS OF

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SALUTATION

December 30, 2020

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

MODA HEALTH PLAN, INC.
601 SW Second Avenue
Portland, Oregon 97204

NAIC Company Code 47098

hereinafter referred to as the "Plan." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed a regular, multi-state, full-scope financial examination of Moda Health Plan, Inc. The last examination of this health care service contractor was completed as of December 31, 2015. This examination covers the four-year period of January 1, 2016, through December 31, 2019.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook.* The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Plan 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 Plan 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Plan's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 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 the Plan.

COMPANY HISTORY

The Plan was incorporated in 1988 under the laws of the Oregon Insurance Code as a for-profit life and health insurer under ORS Chapter 732. The Plan received its Certificate of Authority as a domestic life and health insurer on December 28, 1988. In 1992, the Plan sought to amend its Certificate of Authority to become a property & casualty insurer. An amended Certificate of Authority was granted on January 5, 1993. Effective January 1, 1992, the Oregon Dental Association (ODA) contributed 100% of the capital stock of the Plan to Health Services Group (HSG – now Moda Partners, Inc.), the current direct parent.

On June 22, 1999, HSG formed and incorporated a new subsidiary named ODSHP Acquisition Sub, Inc., under the laws of the State of Oregon. The Oregon Secretary of State Corporation Division registered this Plan as a domestic business corporation. The Plan was merged with and into this corporation, and a new Certificate of Authority was granted on October 8, 1999, as a health care service contractor under ORS Chapter 750. On October 19, 1999, ODSHP Acquisition Sub changed its name to its ODS Health Plan, Inc. Effective January 24, 2013, the Plan changed its name to Moda Health Plan, Inc.

Capitalization

Under Article III of the Restated Article of Incorporation, the Plan is authorized to issue 2,000,000 shares of common stock of $1.25 par value per share. The outstanding stock certificates are owned 100% by Moda Partners, Inc. The Plan received paid in and contributed surplus amounts of $131,954,325 during 2016 and $6,170,411 during 2017.

Surplus Notes

The Plan reported issuance of two surplus notes, as follows:

Purchaser	Issued	Principal	Rate	Maturity
OEA Choice Welfare Benefit Trust	07/01/2017	$ 10,000,000	6.55%	06/30/2024
Oregon Health Sciences University	12/15/2014	50,000,000	4.00%	12/15/2024
Total		$ 60,000,000		

The notes were approved by the Oregon Division of Financial Regulation and each payment of interest of the surplus notes was made with the prior approval of the Director, in compliance with SSAP No. 41.

In September 2018, the Plan converted previously contributed capital from Oregon Dental Service (ODS) into a surplus note in the amount of $13,953,333 with no interest payable on the principal amount and no specific maturity date. Upon approval from the Division of Financial Regulation, this surplus note was repaid on September 20, 2019.

Dividends to Stockholders and Other Distributions

During the period under examination, the Plan paid an ordinary dividend in the amount of $25 million to the parent company, Moda Partners, Inc. on October 28, 2019. The dividend was approved by the Division of Financial Regulation on October 21, 2019.

CORPORATE RECORDS

Board Minutes

In general, the review of 2016 to 2019 Board meeting minutes of the Plan, as well as the various committees authorized by the Board, indicated that the minutes support the transactions of the Plan and clearly describe the actions taken by its directors and officers. A quorum, as defined by the

Plan's bylaws, was met at all of the meetings held during the period under review. The Board maintained a quarterly meeting schedule.

The Compensation/Governance Committee approves the compensation of the Plan's officers, in compliance with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan last amended its Articles of Incorporation on November 16, 2012. The Article of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Plan's Bylaws were last amended June 3, 2013. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Plan in a Board of Directors. The number of Directors of the Corporation shall be determined by a resolution of the Board. The Board of Directors shall include the chief executive officer of the Corporation and the Chairman of the Board of Moda Partners, Inc. Directors serve terms of two years without limitation to the number of terms. Not less than one-third of the directors shall be representatives of the public whom are not practicing doctors, employees, or trustees of a participating provider of the corporation. A majority of the number of directors constitutes a quorum. On December 31, 2019, the Plan was governed by a six-member Board of Directors as follows:

Name and Address	Principal Affiliation	Representative	Member Since
Kenneth Lee Allen Beaverton, Oregon	Retired Executive Director AFSCME	Public	2018
Michael Edwin Biermann Portland, Oregon	Self Employed Pediatric Dentist	Public	2007
Molly Hering Bordonaro Portland, Oregon	Managing Partner Gerding Edlen	Public	2012
Jill Ronne Eberwein Portland, Oregon	Co-Founder Mazama Capital Management	Public	2011
Robert Glenn Gootee Portland, Oregon	Chief Executive Officer Moda Partners, Inc.	Company	1988
David Wesley Howerton * Portland, Oregon	Self Employed Oral & Maxillofacial Surgeon	Public	2004

* Board Chair

The Directors as a group have experience in insurance, accounting and management, in accordance with the provisions of ORS 731.386. ORS 750.015(1) requires not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor be representatives of the public who are not practicing doctors, employees, or trustees of a participant hospital. The Board of Directors was in compliance with this requirement.

Officers

Principal officers serving at December 31, 2019, were as follows:

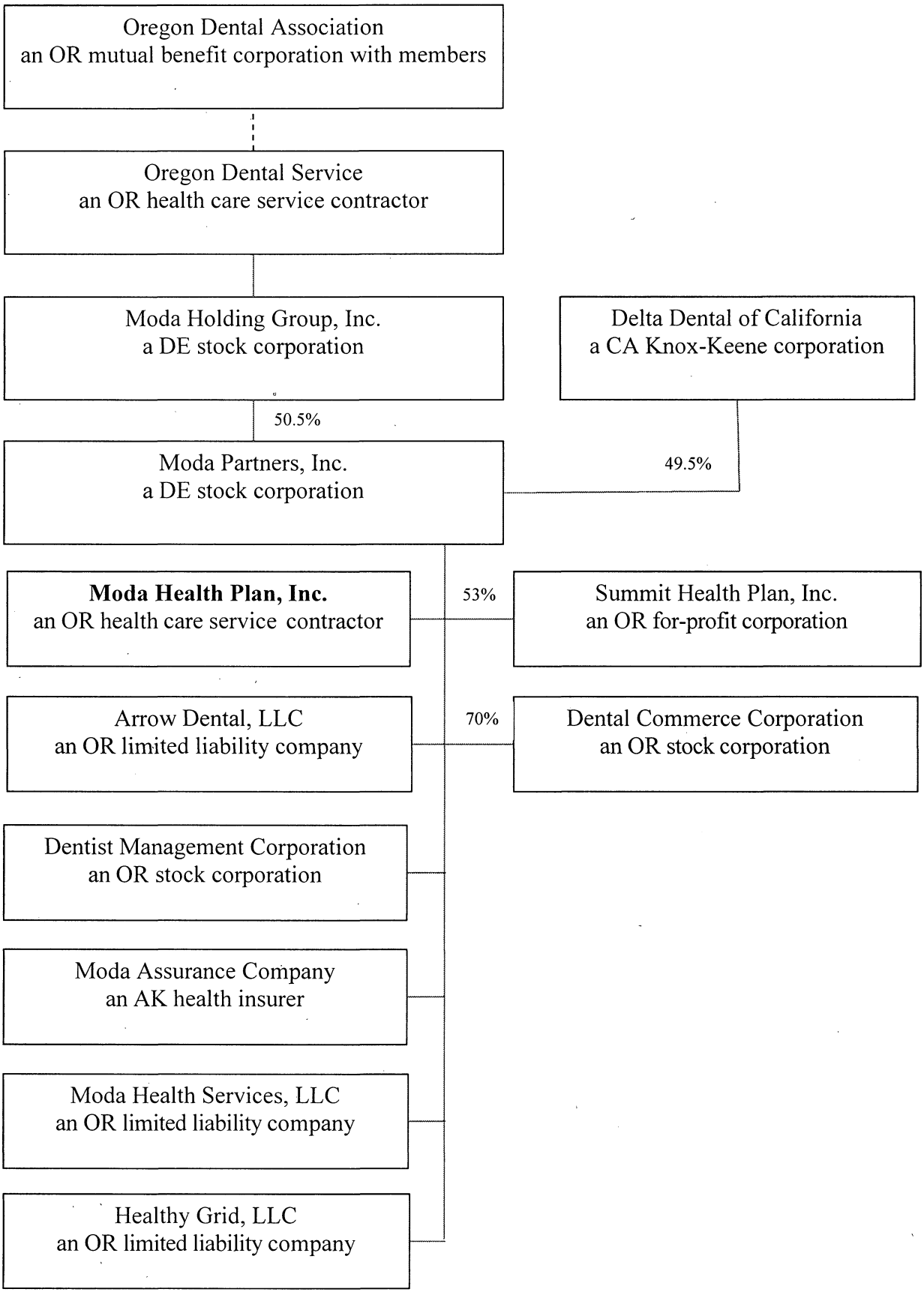
Name	Title
William Ellis Johnson	President
Robert Glenn Gootee	Chief Executive Officer
David Wayne Evans	Chief Financial Officer and Treasurer
Thomas James Bikales	Secretary

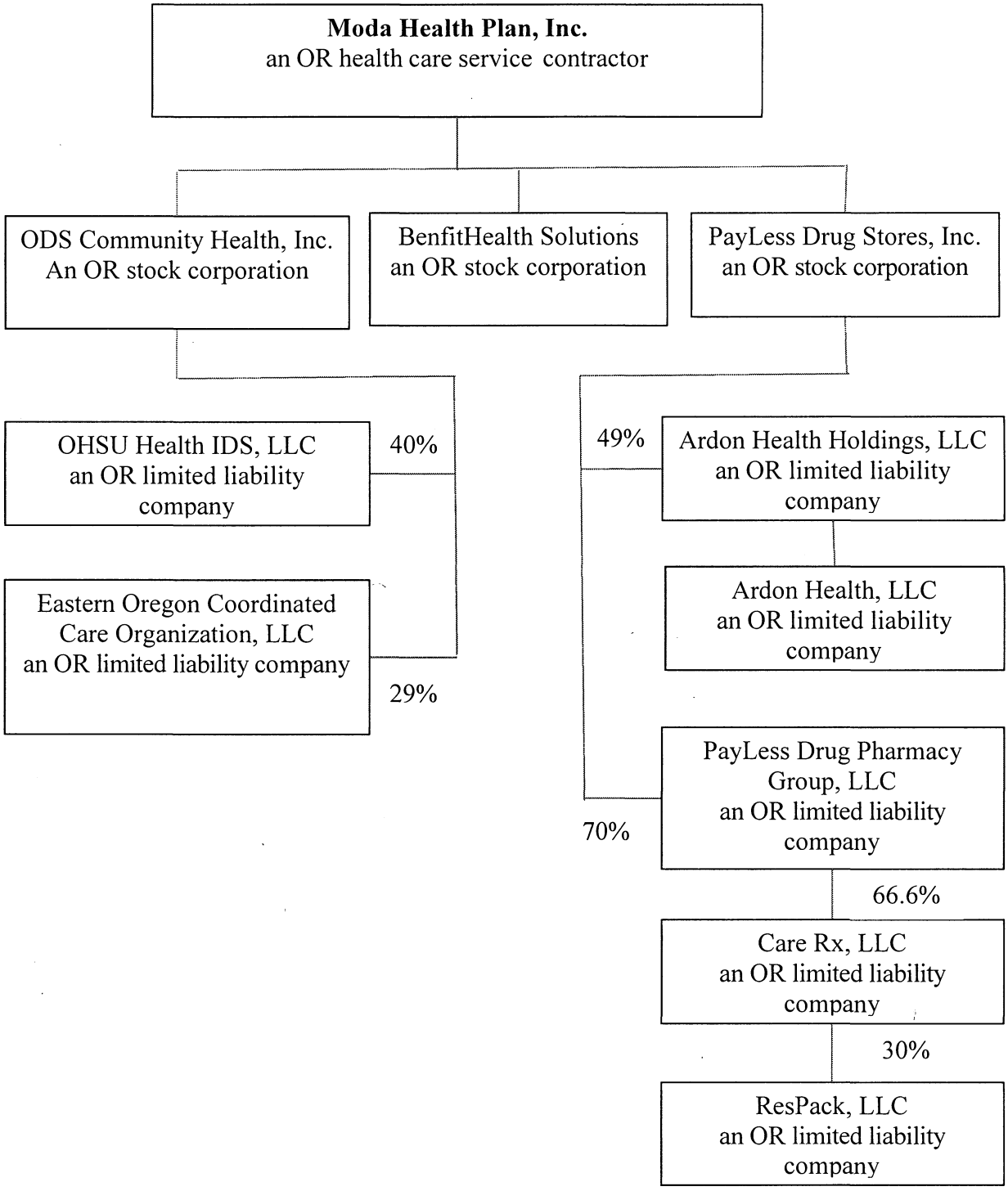
Conflict of Interest

The Plan provided its conflict of interest policy. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The Examiners were provided copies of specific agreements that were not mentioned in the registration statement, as noted below. The following abbreviated organizational chart depicts the relationship between the related entities of the Plan (Ownership is 100% unless otherwise indicated):


Oregon Dental Association
an OR mutual benefit corporation with members
Oregon Dental Service
an OR health care service contractor
Moda Holding Group, Inc.
a DE stock corporation
Delta Dental of California
a CA Knox-Keene corporation
50.5%
49.5%
Moda Partners, Inc.
a DE stock corporation
Moda Health Plan, Inc.
an OR health care service contractor
53%
Summit Health Plan, Inc.
an OR for-profit corporation
Arrow Dental, LLC
an OR limited liability company
70%
Dental Commerce Corporation
an OR stock corporation
Dentist Management Corporation
an OR stock corporation
Moda Assurance Company
an AK health insurer
Moda Health Services, LLC
an OR limited liability company
Healthy Grid, LLC
an OR limited liability company



A description of the direct entities above is as follows:

Oregon Dental Association (ODA) is an Oregon nonprofit professional association formed in 1949. It is one of the five constituent dental societies that comprise the American Dental

Association's Eleventh Trustee District. ODA members are dentists licensed in Oregon. The Board of Trustees of the ODA appoints all but one of the directors of the Plan's Board, and would be considered the ultimate controlling entity.

Oregon Dental Service dba Delta Dental of Oregon (ODS) is an Oregon nonprofit health care service contractor formed in 1961 under the sponsorship of the ODA. It received its Certificate of Authority on July 23, 1962, and writes dental insurance in the States of Alaska and Oregon.

Moda Holdings Group, Inc. (MHG) is a Delaware stock corporation formed in 2018 to hold an investment in Moda Partners, Inc., subsequent to the acquisition of 49.5% of the shares of Moda Partners, Inc. by Delta Dental of California. It is owned 100% by ODS.

Delta Dental of California (DDCA) is a California nonprofit corporation and 49.5% owner of Moda Partners, Inc., appointing two of the five Board seats. DDC owns 100% of the common stock of DDC Insurance Holdings, Inc. and 100% of the common stock of eight insurance companies and five non-insurance entities as part of the Dentegra Group (a Delaware nonprofit corporation). DDC is the nation's leading provider of dental insurance and maintains a national network of Delta Dental companies, offering dental coverage in all 50 states, Puerto Rico and other U.S. territories.

Moda Partners, Inc. (MPI) is a Delaware for-profit stock corporation formed in 2016 as a management company. It maintains all employees, facilities and operations used by the Plan under a management agreement described below. MPI owns all the outstanding shares of the Plan and would be the direct parent.

Moda Partners, Inc. owns the following subsidiaries:

Arrow Dental LLC (ADC) is an Oregon limited liability company formed to serve the Medicaid consumer dental market.

Dental Commerce Corporation (DCC) is an Oregon corporation incorporated on May 2, 2011. Its purpose is to finance dentist offices and equipment purchases.

Dentists Management Corporation (DMC) is an Oregon corporation incorporated on August 4, 1981. Its primary function is to market a dental practice management system known as DAISY.

Moda Assurance Company (MAC) is a stock corporation and a licensed health insurer in Alaska. The entity was formed in 2019 and began to write major medical policies for individual insurance coverage on January 1, 2020.

Healthy Grid, LLC (HGL) is a limited liability company licensed in Oregon. It was formed to serve the online consumer dental market and provide dentists with the resources they need to grow their practice.

Summit Health Plan, Inc. (SHP) is a stock corporation licensed in Oregon. It was formed in 2019 but ultimately incorporated in 2020 and will begin writing Medicare Advantage business in eastern Oregon in 2021.

The following are wholly owned subsidiaries of the Plan unless otherwise noted:

Benefit Help Solutions, Inc. (BHS) is an Oregon corporation operating as a third party administrator and was incorporated on January 26, 1994.

ODS Community Health, Inc. (OCH) was incorporated in December 2003 for the purpose of handling business of the Oregon Health Plan, through the Division of Medical Assistance Programs (now the Oregon Health Authority). It formed Eastern Oregon Coordinated Care Organization, LLC.

OHSU Health IDS, LLC (OHI) is an Oregon limited liability company owned 60% by Oregon Health & Science University and 40% by ODS Community Health, Inc. It provides services to approximately 40,000 Medicaid members in the Portland metropolitan area under an agreement with HealthShare.

Eastern Oregon Coordinated Care Organization, LLC (EOCCO) is an Oregon limited liability company, which is owned 29% by ODS Community Health Inc. and the remainder by Greater Oregon Behavioral Health Inc. and other parties. EOCCO provides services to Medicaid members across eastern Oregon.

PayLess Drug Stores, Inc. (PayLess) is a stock corporation. It serves as a holding company for stand-alone pharmacy entities not related to pharmacy business associated with MHPI's medical plans. PayLess offers medication distribution, packaging, account management, medical records, billing, and pharmacy and nurse consulting services, nursing, assisted living, and other healthcare facilities in the Pacific Northwest. PayLess owns 70% of PayLess Drug Pharmacy Group, LLC, and 49% of Ardon Health Holdings, LLC.

Payless Drug Pharmacy Group, LLC (PDPG) is a limited liability company and a holding company that owns an interest in Care Rx, LLC, of which PayLess Drug Stores, Inc. has a 70% ownership

interest. During 2020, subsequent to the Asset Purchase Agreement discussed below, PDPG was dissolved.

Care Rx, LLC (dba PropacPayLess) is a limited liability company, which specializes in supplying pre-packaged drugs to long-term care facilities. Payless Drug Pharmacy Group, LLC has a 66.6% ownership interest. Its assets were sold in 2019 as part of the PropacPayless Asset Purchase Agreement with a third party. Afterwards, it was dissolved.

ResPack, LLC is a limited liability company and a long-term care pharmacy specializing in skilled nursing facilities. Care Rx, LLC has a 30% ownership interest. Its assets were sold in 2019 as part of the PropacPayless Asset Purchase Agreement and the legal entity was subsequently dissolved.

Ardon Health Holdings, LLC is a limited liability company and a holding company for Ardon Health, LLC. The holding company is 49% owned by PayLess Drug Stores, Inc. Healthy Living Alliance, LLC is the other member.

Ardon Health, LLC is a limited liability company, which is focused on selling specialty drugs to customers.

Intercompany Agreements

The Examiners found the Plan had a number of agreements in place, yet several agreements were not disclosed in the insurance holding company registration statement filings. Additionally, SSAP No. 25, paragraph 8, states *transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date.* Additionally, ORS 732.574(2)(a)-(B) states *A domestic insurer and any person*

in the domestic insurer's insurance holding company system may enter into a transaction described in this subsection, including an amendment to or modification of an affiliate agreement that is subject to standards set forth in this section, only if: (A) the domestic insurer has notified the director of the domestic insurer's intention to enter into the transaction in writing and not later than the 30th day before the transaction, or within a shorter period the director allows; and (B) the director does not disapprove the transaction within the period.

The Plan operated as of December 31, 2019, under the following related party agreements:

Amended and Restated Management Services Agreement

Effective January 1, 1995, and last amended on December 3, 2019, the Plan entered into a management and service agreement with Moda Partners Inc. (MPI). The management agreement states that MPI will provide all marketing, underwriting, claims, reinsurance, investments, financial and accounting systems and financial reporting, information systems and data processing, administration functions to the Plan. MPI will provide all equipment, computer software, furniture, fixtures and all tangible personal property used to transact business, as well as all employees and staff. Terms of the agreement states the Plan is to pay all costs and expenses that are directly attributable to its operations, and indirect expenses are to be pooled and allocated using a fair and reasonable method.

The agreement did not specify a due date for payment. Sections 5.2 of the agreement states that all intercompany activities as well as intercompany loans shall be permitted only if separate, accurate and verifiable accounting is maintained. All such transactions are reconciled monthly, and balances held more than 90 days are paid interest equal to the 90-day US T-Bill rate as of the last business day of the month. Additionally, MPI and the Plan shall mutually agree in good faith

regarding reasonable expense reimbursements for amounts paid or incurred by MPI in connection with management services performed, including compensation, benefits, and payroll taxes paid or incurred by MPI for its employees. If not mutually agreed upon, other expense reimbursements shall be invoiced by MPI from time to time (not more frequently than monthly) and shall be paid within 15 business days after the delivery of such invoice.

The Agreement did not specify any specific cost allocation methodologies in various sections of the Agreement, including Section 3.1: Use of Leased Property by the Affiliated Companies; Section 6.3: requirement that the Manager and Plan mutually agree upon reasonable expense reimbursements for amounts paid or incurred by the Manager for the benefit of the Plan; and Section 6.4: Reasonable Rent for the Leased Property. As a result, there is no basis to conclude that allocation would be fair and reasonable per the requirements of ORS 732.574(1)(a). Further, the affiliated companies are not signatories to the Agreement, as some of the companies included no longer exist, while others included in the holding company system are not listed.

Section 7.3 allows for the immediate suspension or termination of the Agreement in the event that Oregon DCBS initiates litigation or regulatory action regarding the provisions of the Agreement. However, there is no clarification that essential services to policyholders may not be immediately suspended or terminated without approval from the Oregon Division of Financial Regulation.

I recommend the Plan amend the Management Services Agreement as follows per the requirements of SSAP No.25, paragraph 8, and ORS 732.574(1)(a) through (d):

- **Have all parties to the agreement, including affiliated companies, sign the agreement;**
- **Have the Agreement specifically state that it is between Moda Partners, Inc. and the Affiliated Companies so it is clear what applies to the Plan and what applies to affiliated companies;**

- **Have the allocation methodologies for indirect expenses specifically outlined in the agreement;**
- **Have sections of the agreement which are vague and general be made more specific or made into separate agreements, (i.e. clarification on required insurance coverages);**
- **Have the Agreement clarify that essential services to policyholders may not be immediately suspended or terminated without the approval of the Division of Financial Regulation;**
- **Have the Agreement specify due dates for payments in regards to all intercompany activities and intercompany loans;**
- **Amend the Agreement to include an accurate listing of existing affiliated companies of MPI;**
- **Amend the Agreement to reflect the name change of an affiliate from ODS Health Plan, Inc. to Moda Health Plan, Inc.**

I further recommend the Plan incorporate into the Management Services Agreement for a Lease/Rental provision between Moda Partners, Inc. and each named affiliated company which specifies rent charges or at least the rent allocation methodology to be used, settlement dates, and consequences if settlement is not made by the due date, pursuant to the requirements of SSAP No. 25 and ORS 732.574(1)(a) through (d).

Consolidated Tax Allocation Agreement – Amended and Restated

Effective January 1, 2017, an amended and restated consolidated tax allocation agreement was executed in which Moda Partners, Inc. (MPI) files consolidated federal and state income tax returns for itself and the following subsidiaries beginning with the period ending December 31, 2017; and for any subsequent taxable period for which the Consolidated Group is permitted to file a consolidated Federal and State income tax return. The subsidiaries include Moda Health Plan, Inc., ODS Community Health, Inc., BenefitHelp Solutions, Inc., Dentists Management Company, and PayLess Drug Stores, Inc. Under this agreement income tax liability for each entity is calculated as if each entity is filing separate returns with certain exceptions. Final settlements are based on the filed tax return. MPI may require estimated tax payments as necessary to meet its

tax obligations. The agreement provides that any deferred tax asset or liabilities as determined by GAAP or SSAP shall be recorded on the parent's books as determined on a consolidated basis. The agreement further states that the Plan's deferred tax assets (DTA) or deferred tax liabilities (DTL) shall be used based on GAAP or STAT basis. Further, the agreement states, all deferred tax balances on a SSAP basis will be carried on the statutory entity's books and be recorded under the guidance of SSAP No. 101. According to the agreement, the settlements period for balances owed between parties will be settled 90 days subsequent to filing the consolidated tax return.

Based on a review of the Agreement, it is not possible to determine that the terms of Section II.B.6 and Section III.B are fair and reasonable in accordance with the requirements of ORS 732.574(1)(a). Further, the Agreement allows the Parent to make a financial determination without specific approval of the Subsidiary or Subsidiaries. The reallocation of payments and refunds as stated are in violation of ORS 732.576.

I recommend the Plan bring the Tax Consolidated Agreement into compliance with ORS 732.574(1)(a) by following industry standard best practices and specifically state in the Tax Consolidated Agreement that allocations of taxes payable and refunds will be computed on a separate tax liability basis. I further recommend the Plan ensure that each party named in the agreement sign the document by stating the name of the Company and an authorized individual of the Company sign on behalf of the Company and ensure any future entities are included in the Tax Consolidated Agreement and are signatories to the agreement.

Administrative Services Agreement – Medicare Dental Services

Effective January 1, 2019, the Plan entered into an Administrative Service agreement with Oregon Dental Service dba Delta Dental of Oregon (ODS). Under the agreement, the arrangement includes the following:

- ODS will administer the Plan's Medicare Advantage and Part D Prescription Drug (MAPD) plans dental benefit as provided for in this Agreement for Members following any applicable requirements imposed by the CMS, federal Medicare rules, or laws including, without limitation.
- The Plan shall pay ODS an administrative fee per Member per Month (PMPM) for each Member enrolled in an MAPD Plan with a dental benefit as provided.
- ODS agrees to maintain for 10 years the books, records, documents, and other evidence of accounting procedures and practices.
- ODS shall process claims for payment for valid claims for dental services on the Plan's MAPD Plans.
- ODS shall maintain a network of contracted dental providers.
- The Plan retains the right to approve, suspend, or terminate any such arrangement with any Participating Dental Provider as to services for its Members.
- ODS shall credential all Participating Dental Providers who provide dental services to Members.
- ODS shall provide customer service functions to the Plan's Members.
- ODS shall maintain a health information system that collects, analyzes and integrates the data necessary to implement its quality improvement program;

The agreement states the Plan shall pay a fixed amount PMPM for each Member enrolled on the Plan's MAPD plan with a dental benefit.

First Amendment to ASA Medicare Dental Services

The agreement was amended effective January 1, 2020. The amendment was made to include the Dental Benefit Administration Fee. The Plan will pay ODS a fixed amount PMPM for each Member enrolled in the Plan's MAPD plan with a dental benefit.

Pharmacy Services Agreement

Effective May 1, 2014, the Plan entered into a pharmacy services agreement with Ardon Health, LLC (Ardon). The Agreement allows Ardon to provide specialty medications to patients insured by the Plan or their treating physicians per the patient's instructions at participating pharmacies. The Agreement requires each patient requesting such services to provide evidence of eligibility and proof of identification. Ardon is required to transmit all claims to the Plan. Ardon may not bill the patient for covered services (except deductibles, co-payments, or coinsurance). The Plan is required to pay Ardon timely for all non-disputed clean claims, which includes payment of ninety-five percent of the monthly volume of clean claims within 30 days of receipt by the Plan. Ninety-five percent of the monthly volume of all claims shall be paid or denied within 60 days of receipt by the Plan or its agent.

Pharmacy Services Agreement – Addendum No.3

The Agreement was amended effective January 1, 2019 to require the Plan to utilize Ardon exclusively as its specialty pharmacy provider for all lines of business and programs with an enhanced and exclusive pharmacy benefit. Exceptions to exclusivity include programs benefiting from "any willing provider" provisions, and medications that are not available to Ardon, such as limited distribution drugs, and/or services otherwise mutually agreed upon. The addendum also

included a table of generic discounts (by discount percentage) for NW Consortium and commercial clients from January 1, 2016 through January 1, 2019.

Failure to file a Form D in a Timely Manner

In review of intercompany transactions, the examiner noted a reconciliation of transactions between the Plan and affiliate EOCCO. As the transactions were not covered by any agreement previously provided, examiner requested an explanation for the transactions and a copy of the agreement. The Examiners found that the original agreement for these transactions was put in place December 7, 2010. The Plan also informed the examiner that it was in the process of preparing a Form D filing for approval from the Division of Financial Regulation. According to the agreement, it has been amended most recently in 2014.

I recommend the Plan immediately file the Form D on the Participation Agreement between Moda Health Plan, Inc. and EOCCO and adopt policies and procedures to ensure the Plan is always in compliance with ORS 732.574(2).

Failure to Have an Agreement for Intercompany Pre-Settlements

In review of intercompany expenses and settlements examiner noted pre-settlements in the expense spreadsheets in the amount of $3 million and $12 million paid by the Plan to Moda Partners, Inc. and ODS, respectively. There is no contract in place that addresses the Plan paying monies to Moda Partners, Inc. or ODS in advance for any expenses incurred by either entity on MHP's behalf.

I recommend the Plan either amend and file its Management Service Agreement with MPI to include intercompany expense allocations and any pre-settlements, or file a new agreement under a Form D for approval by the Division of Financial Regulation. Additionally, I

recommend the Plan adopt and implement policies and procedures which ensure all transactions between affiliated entities are in compliance with SSAP No. 25, paragraph 8 and ORS 732.574(2).

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The insurance coverages are provided through insurance policies issued by unaffiliated carriers. ODS and its subsidiaries are insured up to a $15,000,000 aggregate limit, including single loss limits of $7,500,000 with a $100,000 deductible against losses from acts of dishonesty and forgery by its employees and agents. Fidelity bond coverage was found to meet the coverage recommended by the NAIC.

Other insurance coverages in force at December 31, 2019, were found to be adequate, and included:

Cyber
Terrorism
Medical Professional Liability
Workers Compensation
Managed Care Errors and Omission
Excess Managed Care Errors and Omissions
Directors and Officers liability
Employment Practices Liability
Property
Umbrella

TERRITORY AND PLAN OF OPERATION

The Plan is licensed in Alaska, California, Idaho, Oregon, Texas, and Washington, but only actively writes in Alaska and Oregon. The Plan offers commercial comprehensive individual and group (small and large) plans, Minimum Premium Plans, Administrative Service Contracts (ASC), Administrative Service Only (ASO), Medicare Supplement Plans and Medicare Advantage PPO (Title XVIII), both with and without prescription drug coverage. Oregon Health Plan (Medicaid-Title XIX) is offered through two partially owned subsidiaries, OHSU Health IDS, LLC (OHI)

and Eastern Oregon Coordinated Care Organization, LLC (EOCCO). The majority of the Plan's business is ASC and ASO accounts. In 2018, the Plan began to covert from ASC to ASO contracts and was fully converted to only ASO contracts by 2019.

The Plan's health products are supported by key physician and hospital networks in Oregon. The Plan sells its commercial products through a network of appointed brokers/consultants and has been certified to offer plans through Oregon Health Insurance Marketplace (OHIM) as part of the Affordable Care Act. At YE 2019, the Plan reported approximately $539.4 million in Accident & Health Premiums and $105.4 million in Medicare Title XVIII premiums.

During the last five years, the Plan reported total enrolled members as follows:

Line of Business	2015	2016	2017	2018	2019
Individual hospital & medical	123,189	62,215	20,893	37,466	32,506
Group hospital & medical	88,473	51,291	34,052	34,307	26,491
Medicare supplement	0	0	0	0	26,926
Vision only	0	0	0	0	0
Dental only	0	0	0	0	0
FEHPB	0	0	0	0	0
Medicare	4,605	16,287	17,881	18,493	10,885
Medicaid	0	0	0	0	0
Other	0	0	0	0	0
Total enrollment	216,727	129,793	72,826	90,266	96,808

A portion of the commercial business is written on a retention basis whereby the Plan agrees to refund the excess, if any, of premium received over claims and administrative costs paid. The experience refund is generally used as an offset against increases in a group's premiums and in 2019, approximately $8.1 million was included in the liability account; aggregate health policy reserves.

In addition to its insured business, the Plan acts as a third party administrator for many self insured groups through Administrative Service Only (ASO) arrangements. Premium and claims associated with ASO business and uninsured portion of partially insured business are excluded from statutory financial statements. Under an ASO prefunding arrangement, the claims are not paid until the Plan's bank account has been funded by the group to cover the claims payment. The Plan has fully converted from ASC business, whereby the Plan pays claims from its own bank account and subsequently receives reimbursement from the uninsured groups, to ASO prefunded business by 2019.

A Minimum Premium Plan (MPP) is part of the ASO business that is identified as partially insured business. This is a product where the Plan charges a group a minimum premium per person per month to cover the administrative fees servicing the uninsured plans, where the contract can be bifurcated for amounts above the groups claims limit that the Plan is required to insure and is identified as its exposure above a stop-loss threshold. At year-end, any stop-loss component should be included in the incurred but not reported reserve (IBNR) and the associated premiums and claims be reported as direct business of the Plan.

The records maintained by the Plan regarding uninsured plans did not include sufficient information to determine the accuracy of the reported amounts in the Annual Statement. The examiners reviewed the contracts of the employer groups and noted instances of the Plan including a stop loss component to a number of the policies. The Examiners determined one large contract was accounted for as an uninsured plan, but upon reviewing the contract, the Examiners found it to be a commercial group plan with a unique profit-sharing arrangement. Assets reported from uninsured plans are covered under Note 2 below, following the financial statements.

I recommend the Plan evaluate its entire book of business recorded as uninsured or partially insured plans and properly report its results in accordance with SSAP No. 47 and the NAIC Annual Statement Instructions for Health manual.

GROWTH OF THE COMPANY

The growth of the Plan over the past five years is reflected in the following table. The stated amounts were obtained from the Plan's filed annual statements, except for those years in which the Division of Financial Regulation published the examination.

Year	Assets	Liabilities	Capital and Surplus	Net Income (Loss)
2015 *	$ 548,774,732	$ 499,030,570	$ 49,744,162	$ (49,529,430)
2016	366,378,390	288,805,834	77,572,556	(12,904,649)
2017	251,811,361	161,640,397	90,170,964	44,165,005
2018	316,994,497	186,237,245	130,757,252	(227,092,210)
2019 *	249,150,945	191,527,699	57,623,247	6,250,380

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Plan over the past five years. The amounts were obtained from copies of the Plan's filed annual statements and, where indicated, from the previous examination reports.

Year	(1) Total Revenues	(2) Total Hospital and Medical	(2)/(1) Medical Loss Ratio	(3) Claim Adjustment and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2015 *	$ 777,092,615	$ 778,817,127	100.2%	$ 61,780,406	108.1%
2016	903,914,876	874,329,435	96.7%	82,822,791	105.9%
2017	561,141,440	520,997,889	92.8%	32,202,097	98.6%
2018	437,417,109	612,784,569	140.1%	73,635,577	156.9%
2019 *	647,287,493	607,133,869	93.8%	84,256,887	106.8%

*Per examination

A combined ratio of more than 100% would indicate an underwriting loss. The Plan reported net underwriting losses in 2015, 2016, 2018 and 2019. The combined ratio and net loss for 2018 reflected inclusion of the Risk Corridor write-off through the income statement. In addition, approximately 67% of the Plan's 2019 premiums were being reported as non-insurance ASO and uninsured portion of partially insured group business. The premiums and claims from this business were not included above, but the Plan does collect a service fee that offsets a portion of the total general expenses incurred.

REINSURANCE

Effective January 1, 2019, the Plan entered into a one-year Medical Excess Reinsurance Agreement with Axis Insurance Company (NAIC # 37273, authorized in Oregon on December 7, 1982). The Agreement covers individual on and off Exchange business; group business including medical and stop loss policies, Oregon Dental Service and its subsidiaries, and the Policy issued to the City of Portland, Oregon; and Medicare Advantage business. Under the terms of the Agreement, the reinsurer is liable for 100% of an unlimited amount of the ultimate net loss of any one covered person in excess of the Plan's retention of $1,000,000 and retentions stipulated by the Oregon Reinsurance Program for individual business. The Oregon Reinsurance Program is anticipated to have an attachment point under $150,000 with a $1,000,000 limit at 50% coinsurance. Underlying reinsurance layers include $150,000 excess of $850,000 and $250,000 excess of $750,000 based on any changes made to the Oregon Reinsurance Program. Group business retention is $850,000. The Policy issued to the City of Portland (CityCore plan) retention is $1,250,000. Medicare Advantage retention is $600,000. All premiums and claims under the Contract are reported on an "accident year" accounting basis. All premiums are credited to the

period during which they are earned and all claims are charged to the period in which they are incurred. The reinsurer agrees to promptly pay all reinsured claims upon proof of loss. It was determined the Plan's reinsurance agreement clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

Risk Retention

The Plan did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders in compliance with ORS 731.504.

Insolvency Clause

The reinsurance agreement contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2019, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

The Plan has a system in place to account for unclaimed funds and the Plan has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

STATUTORY DEPOSIT

As of the date of the examination, the Plan maintained deposits with the Oregon Division of Financial Regulation, Department of Consumer & Business Services, totaling $1,675,000 (par value) in accordance with ORS 750.045(2). The deposit was verified from the records of the

Division of Financial Regulation but was not properly listed in the 2019 annual statement, Schedule E – Part 3. The deposit was comprised of FHLB and FNMA U.S. Special Revenue Issuer Obligations. A statutory deposit in the amount of $150,000 was also maintained for the state of Washington.

I recommend the Plan properly list statutory deposit totals in Schedule E – Part 3 of the Annual Statement, in accordance with the provisions of ORS 731.574(1) and the Annual Statement Instructions.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were seven recommendations made from the prior examination performed by the Division of Financial Regulation as follows:

1. I recommend that the ODS Group formulate a written Enterprise Risk Management process that includes modeling risk scenarios and Model Audit Rule compliant organization that includes an independent internal audit department that reports to the Board or committee thereof. It was noted that this structure has been subsequently developed but not reviewed during the examination process.

2. I recommend the Plan modify its use of the Zero Balance Account (ZBA) structure with Moda, Inc.'s sweep/concentration account and maintain ownership and existence of its cash in the name of ODS in accordance with SSAP No. 4 and ORS 733.780.

3. I recommend that the Plan enhance its processes to ensure proper disclosure of restricted assets and its financial statements are completed in accordance with NAIC Annual and Quarterly Statement instructions as required by ORS 731.574.

4. I recommend that tax sharing agreement be amended to present its 2017 and future Deferred Tax Assets and Deferred Tax Liabilities separate from the current tax payable or receivable balances and include the applicable references to SSAP No 101.

5. I recommend that the Plan refine its reconciliation of the lag tables to the general ledger/financial statements to better facilitate the examination in accordance with ORS 731.308(3) and ORS 733.170.

6. I recommend that the Plan continue to improve its disclosure within the financial statements to reflect its agreements executed between related and un-related parties. In

addition, I recommend the Plan properly document and disclose the bonds in Schedule D - Part 1 to identify those securities/investments that are encumbered or otherwise restricted under agreements, to comply with SSAP No. 4, paragraphs 6 and 7.

7. I recommend the Plan perform periodic reviews of its methodology used to determine Unpaid Claim Adjudication Expenses

The 2019 Risk Focused examination disclosed the following in response to the prior examination recommendations:

1. The Plan has been in the process of improving its Enterprise Risk Management process and modeling risk scenarios as part of its Group ORSA Reporting. The Internal Audit Manager reports directly to the Audit Committee.

2. The Plan's December 2019 bank statements indicated ownership and existence of its cash in the name of Moda Health Plan, Inc. The Plan no longer has a cash sweep account.

3. The 2019 Annual Statement – Note 5 – Investments, Part L – Restricted Assets disclosed the Plan has $4.7 million on deposit with the Oregon Division of Financial Regulation and $150,000 on deposit with the State of Washington that were pledged to policyholders. The Oregon deposit was comprised of restricted assets for minimum capital & surplus requirements in addition to the required statutory deposit amount. The amounts held on deposit book had a book value of $4,693,892 and was also reflected on Schedule E – Part 3. The Plan is not involved in securities lending nor has any other pledged collateral.

4. A Consolidated Tax Sharing Agreement was amended subsequent to the last examination, however, as noted under the Intercompany Agreements section above, it will need additional modifications.

5. Substantive claims completeness testing involved tracing a sample of claims included in the check or EFT payment to related lag table cells, based on incurred and paid dates. No issues were noted.

6. There are still numerous annual statement disclosure issues, including disclosures in the Notes to Financial Statements. A review of the YE 2019 Notes to Financial Statements did appear to include proper disclosure for related party agreements. A review of Schedule D-Part 1 did not reveal any encumbered or restricted bonds.

7. The methodology used for unpaid claim adjudication expenses is reviewed annually by the opining actuary. Andrew D. Bux, ASA, MAAA, Life & Health Actuary also performed an independent review of claims unpaid and unpaid claim adjustment expenses, with no issues noted regarding the Plan's unpaid claims adjusted expense (CAE) reserve methodology.

SUBSEQUENT EVENTS

On March 11, 2020, the Novel Coronavirus Disease, COVID-19, was declared a pandemic by the World Health Organization. On March 13, 2020, a national emergency was declared in the United States concerning the COVID-19 outbreak. After those developments, the Plan shifted its workforce to a remote work-from-home model, which management has predicted will last through at least the end of 2020. The change has not immediately impacted Plan financials but could see future cost fluctuations related to infrastructure, employee expenses related to productivity, and network/security expenses.

On April 27, 2020, the U.S. Supreme Court ruled 8-1 that insurers can collect the approximately $12 billion owed on the Risk Corridor program during the first three years of the Affordable Care Act (2014 to 2016). The Plan received $248.9 million from the Judiciary Fund on August 6, 2020.

On September 23, 2020, the Plan made an extraordinary distribution in the amount of $118,945,079 to the upstream parent company, Oregon Dental Service. The distribution was approved by the Division of Financial Regulation on August 31, 2020. The proceeds were used as settlement of outstanding preferred stock in Moda Partners, Inc. held by Oregon Dental Service.

On November 12, 2020, the Plan paid an extraordinary dividend in the amount of $35 million to the parent company, Moda Partners, Inc. for the purposes of repaying debt acquired by MPI as part of the 2016 Risk Based Capital Plan, including accumulated interest, which was due on November 15, 2020. The dividend was approved by the Division of Financial Regulation on November 9, 2020.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Division of Financial Regulation and present the financial condition of the Plan for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

Statement of Assets
Statement of Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Reconciliation of Surplus since the Last Examination

MODA HEALTH PLAN, INC.
STATEMENT OF ASSETS
As of December 31, 2019

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 49,271,920	$ -	$ 49,271,920	1
Common stocks	42,561,409	-	42,561,409	1
Cash, cash equivalents and short-term investments	23,031,893	-	23,031,893	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	114,865,222	-	114,865,222	
Investment income due and accrued	223,492	-	223,492	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	29,544,577	-	29,544,577	
Accrued retrospective premiums and contracts subject to redetermination	32,511,757	-	32,511,757	
Reinsurance				
Amounts recoverable from reinsurers	23,993,508	-	23,993,508	
Amounts receivable related to uninsured plans	60,113,242	(68,080,751)	(7,967,509)	2
Federal income tax recoverable	8,453,145	-	8,453,145	
Net deferred tax assets	8,924,438	-	8,924,438	
Receivable from parent, subsidiaries and affiliates	4,290,273	-	4,290,273	
Health care and other accounts receivable	7,795,719	26,087,891	33,883,610	2
Aggregate write-ins for other than invested assets	428,433	-	428,433	
Total Assets	$ 291,143,806	$(41,992,860)	$ 249,150,945	

MODA HEALTH PLAN, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2019

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$ 53,629,608	$ -	$ 53,629,608	3
Accrued medical incentive pool and bonus amounts	17,222,759	-	17,222,759	3
Unpaid claims adjustment expense	2,887,399	-	2,887,399	3
Aggregate health policy reserves	8,109,517	-	8,109,517	3
Premiums received in advance	7,136,245	-	7,136,245	
General expenses due or accrued	20,957,419	-	20,957,419	
Amounts withheld or retained for the account of others	49,850	-	49,850	
Amounts due to parent, subsidiaries and affiliates	118,876	-	118,876	
Liability for amounts held under uninsured plans	80,844,693	-	80,844,693	
Aggregate write-ins for liabilities	571,333	-	571,333	
Total Liabilities	$ 191 527,699	$ -	$ 191,527,699	
Aggregate write-ins for special surplus funds	$ 21,304,496	$ -	$ 21,304,496	4
Common capital stock	2,500,000	-	2,500,000	
Gross paid-in and contributed capital	188,591,891	-	188,591,891	
Surplus notes	60,000,000	-	60,000,000	
Unassigned funds (surplus)	(172,780,280)	(41,992,860)	(214,773,140)	
Surplus as regards policyholders	$ 99 616,107	(41,992,860)	$ 57,623,247	
Total Liabilities, Surplus and other Funds	$ 291,143,806	$(41,992,860)	$ 249,150,945	

MODA HEALTH PLAN, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2019

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Revenue				
Net premium income	$ 640,926,769	$ 6,360,724	$ 647,287,493	2
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	640,926,769	6,360,724	647,287,493	
Hospital and Medical:				
Hospital/medical benefits	299,271,180	32,652,020	331,923,200	2
Other professional services	38,422,919	-	38,422,919	
Outside referrals	44,747,813	-	44,747,813	
Emergency room and out-of-area	49,465,964	-	49,465,964	
Prescription drugs	157,742,251	-	157,742,251	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	19,882,248	-	19,882,248	
Subtotal	609,532,375	32,652,020	642,184,396	
Less:				
Net reinsurance recoveries	35,050,526	-	35,050,526	
Total medical and hospital	574,481,849	32,652,020	607,133,869	
Non-health claims	-	-	-	
Claim adjustment expenses	34,921,404	-	34,921,404	
General administrative expenses	42,974,758	-	42,974,758	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	652,378,011	32,652,020	691,390,756	
Net underwriting gain or (loss)	(11,451,242)	(32,652,020)	(44,103,263)	
Net investment income earned	41,746,596	-	41,746,596	
Net realized capital gains (losses)	175,835	-	175,835	
Net investment gains (losses)	41,922,431	-	41,922,431	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	(68,675)	-	(68,675)	
Federal income taxes incurred	(8,499,886)	-	(8,499,886)	
Net income	$ 38,902,400	$ (32,652,020)	$ 6,250,380	

MODA HEALTH PLAN, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2019	2018	2017	2016
Surplus as regards policyholders, December 31, previous year	$130,757,252	$ 90,170,964	$ 77,572,556	$ 67,018,290
Net income (loss)	6,250,380	(227,092,210)	44,165,005	(12,904,649)
Change in net unrealized capital gains or (losses)	(23,531,216)	4,748,581	(3,712,109)	(21,947,051)
Change in net deferred income tax	(4,513,211)	34,466,885	788,926	27,772,219
Change in non-admitted assets	(12,386,625)	231,221,125	1,136,175	(78,870,578)
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	(13,953,333)	13,953,333	(35,950,000)	(57,050,000)
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:	-			
Paid in	-	(16,711,426)	6,170,411	131,954,325
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	(25,000,000)	-	-	-
Change in treasury stock	-	-	-	-
Examination adjustment	(41,992,860)	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	21,600,000
Change in surplus as regards policyholders for the year	(73,134,005)	40,586,288	12,598,408	10,554,266
Surplus as regards policyholders, December 31, current year	$ 57,623,247	$130,757,252	$ 90,170,964	$ 77,572,556

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2019, the Plan's long-term bond investments were in US Government issuer obligations, US Special Revenue issuer obligations, US Special Revenue Mortgage-Backed securities, and industrial & miscellaneous issuer obligations.

Common stocks were comprised of the underlying equity in three wholly owned subsidiaries (BenefitHelp Solutions, Inc., ODS Community Health, Inc., and Payless Drug Stores, Inc.) with a total reported fair value of around $24 million, which were verified by the examiners. The Plan also held investments in three mutual funds.

Cash was comprised of deposits held at US Bank of Oregon. Cash equivalents consisted of one money market mutual fund.

A comparison of the major investments over the past five years shows the following:

	A	B	C	Ratio	Ratio	Ratio
Year	Bonds	Common and Preferred Stocks	Cash and Short-Term	A/ Total Assets	B/ Total Assets	C/ Total Assets
2015*	$ 39,925,027	$ 51,699,976	(32,916,937)	7.2%	9.5%	(5.9)%
2016	13,920,140	42,600,287	(2,090,428)	3.8%	11.6%	(0.6)%
2017	1,439,413	39,241,244	7,082,647	0.6%	15.6%	2.8%
2018	3,665,691	43,989,826	51,259,834	1.2%	13.9%	16.2%
2019*	49,271,920	42,561,409	23,031,893	16.9%	14.6%	7.9%

* Balance per examination

As of December 31, 2019, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Plan was in compliance with ORS 733.580. Approval of investment transactions was performed by the Finance Committee of the Board of Directors, pursuant to ORS 733.740.

Effective September 9, 2019, the Plan entered into a custodial agreement with US Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Amounts Receivable Relating to Uninsured Plans

A material exam adjustment was made to Amounts Receivable Relating to Uninsured Plans per a review of a Minimum Premium Plan (MPP) contract in accordance with the requirements of SSAP No. 47. The Plan believes the agreement to be a partially insured group plan, with the Plan retaining a portion of the insurance risk under the contract. However, the Plan was reporting cumulative losses under the contract as an admitted asset under Amounts Receivable Relating to Uninsured Plans, stating a provision in the contract allows the Plan to be reimbursed for cumulative losses in those years where the MPP contract has positive experience. This profit-sharing arrangement was determined to be a contingent asset, not a guarantee of payment, since the triggering event had not occurred during the period under examination. This resulted in the elimination of the MPP contract cumulative losses totaling $(32,652,020) from the statement. The examiners have determined the amount does not qualify as an asset pursuant to SSAP No. 4, paragraph 2, thus the amount will be reclassified and expensed as incurred claims on the Statement of Revenue and Expenses.

I recommend the Plan report the cumulative claims amounts under the MPP contract as incurred claims, per the requirements of SSAP No. 4, paragraph 2.

Additionally, the Plan shares pharmacy rebates with a number of its uninsured plans. Under some of the ASO/ASC contracts the Plan retains a portion of pharmaceutical rebates earned as an administrative fee, while under other ASO/ASC contracts the Plan passes through all rebates to the uninsured plans. Where a drug rebate administrative fee is not retained, the full rebate balance is to be reported on the Assets Page, Line 24 – Healthcare and Other Amounts Receivable.

Included in the Amounts Receivable Related to Uninsured Plans portion of the Assets Page, Line 17 is the general ledger account A/R Drug Rebates – Uninsured, in the amount of $26,087,891. The balance reported by the Plan should have been included on line 24 and aging of the receivables should have been performed in Exhibit 3 – Health Care Receivables to test admissibility of the outstanding balances.

I recommend the Plan properly report all pharmaceutical rebates under Healthcare and Other Amounts on the Assets page of all future statement filings to comply with the NAIC Annual Statement Instructions for Health manual.

Additionally, the examiners noted other self-insured plan recoverables related to a specific contract. As this balance was not collected within the 90-day period in accordance with SSAP No. 4 and SSAP No. 47, the balance was decreased by $9,340,841.

I recommend the Plan properly report only the amounts of recoverables from self-insured plans that are collected within 90 days of recording, in accordance with ORS 733.020 and SSAPs No. 4 and 47.

Note 3 – Actuarial Reserves

A review of the claims unpaid accrued medical incentive pool & bonus amounts, unpaid claim adjustment expenses, and aggregate health policy reserves for the Plan was performed by Andrew D. Bux, ASA, MAAA Life & Health Actuary for the Oregon Division of Financial Regulation. As part of the review, he examined the Statement of Actuarial Opinion and Actuarial Memorandum prepared by David O. Thoen, FSA, MAAA of Deloitte Consulting, LLP, consulting actuary of Moda Health Plan, Inc., for their 2019 financials. Mr. Bux also reviewed underlying claims data testing collected by the financial examiners.

Mr. Bux performed an independent analysis of the reserve calculations in the 2019 financial statements, as supported by the Actuarial Memorandum. He concluded that the reserves held were developed according to Actuarial Standards of Practice and were within a reasonable range to be sufficient to cover expected liabilities. Based on his review, he determined the following:

	Exam Estimate	Annual Statement
Claims Unpaid	$ 57,748,000	$ 57,748,000
Accrued Medical Incentive Pool	17,222,759	17,222,759
Unpaid Claim Adjustment Expenses	2,887,399	2,887,399
Aggregate Health Policy Reserves	8,109,517	8,109,517
Total Actuarial Liabilities	$ 85,967,675	$ 85,967,675

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of December 31, 2019, were reasonable. For other actuarial items where an independent estimate wasn't needed, he reviewed the memorandum and exhibits for reasonability of the methodology and assumptions and ultimately had no concerns.

Note 4 - Aggregate Write-Ins for Special Surplus Funds

The Plan is subject to an annual fee under Section 9010 of the ACA. This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance issuer's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2016. As of December 31, 2019, the Plan has written health insurance subject to the ACA assessment, and the surplus appropriated for the ACA Section 9010 fee was $21,304,496. The Plan recorded the assessment accurately in its aggregate write-ins for special surplus funds.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made a $41,992,860 adjustment to surplus, primarily as a result of adjusting the balances from amounts receivable relating to uninsured plans to conform to statutory accounting principles. The following is a summary of the recommendations made in this report:

Page

17 I recommend the Plan amend the Management Services Agreement as follows per the requirements of SSAP No. 25, paragraph 8, and ORS 732.574(1)(a) through (d):

- Have all parties to the agreement, including affiliated companies, sign the agreement;
- Have the Agreement specifically state that it is between Moda Partners, Inc. and the Affiliated Companies so it is clear what applies to the Plan and what applies to affiliated companies;
- Have the allocation methodologies for indirect expenses specifically outlined in the agreement;
- Have sections of the agreement which are vague and general be made more specific or made into separate agreements, (i.e. clarification on required insurance coverages);
- Have the Agreement clarify that essential services to policyholders may not be immediately suspended or terminated without the approval of the Division of Financial Regulation;
- Have the Agreement specify due dates for payments in regards to all intercompany activities and intercompany loans;
- Amend the Agreement to include an accurate listing of existing affiliated companies of MPI;
- Amend the Agreement to reflect the name change of an affiliate from ODS Health Plan, Inc. to Moda Health Plan, Inc.

18 I further recommend the Plan incorporate into the Management Services Agreement for a Lease/Rental provision between Moda Partners, Inc. and each named affiliated company which specifies rent charges or at least the rent allocation methodology to be used, settlement dates, and consequences if settlement is not made by the due date, pursuant to the requirements of SSAP No. 25 and ORS 732.574(1)(a) through (d).

19 I recommend the Plan bring the Tax Consolidated Agreement into compliance with ORS 732.574(1)(a) by following industry standard best practices and specifically state in the Tax Consolidated Agreement that allocations of taxes payable and refunds will be computed on a separate tax liability basis. I further recommend the Plan ensure that each party named in the agreement sign the document by stating the name of the Company and an authorized individual of the Company sign on behalf of the Company and ensure any future entities are included in the Tax Consolidated Agreement and are signatories to the agreement.

22 I recommend the Plan immediately file a Form D on the Participation Agreement between Moda Health Plan, Inc. and EOCCO and adopt policies and procedures to ensure the Plan is always in compliance with ORS 732.574.

22 I recommend the Plan either amend and file its Management Service Agreement with MPI to include intercompany expense allocations and any pre-settlements, or file a new agreement under a Form D for approval by the Division of Financial Regulation. Additionally, I recommend the Plan adopt and implement policies and procedures which ensure all transactions between affiliated entities are in compliance with SSAP No. 25, paragraph 8 and ORS 732.574(2).

25 I recommend the Plan evaluate its entire book of business recorded as uninsured or partially insured plans and properly report its results in accordance with SSAP No. 47 and the NAIC Annual Statement Instructions for Health manual.

29 I recommend the Plan properly list statutory deposit totals in Schedule E – Part 3 of the Annual Statement in accordance with the provisions of ORS 731.574(1) and the NAIC Annual Statement Instructions for Health manual.

38 I recommend the Plan report the cumulative claims amounts under the MPP contract as incurred claims, per the requirements of SSAP No. 4, paragraph 2.

38 I recommend the Plan properly report all pharmaceutical rebates under Healthcare and Other Amounts on the Assets page of all future statement filings to comply with the NAIC Annual Statement Instructions for Health manual.

39 I recommend the Plan properly report only the amounts of recoverables from self-insured plans that are collected within 90 days of recording, in accordance with ORS 733.020 and SSAPs No. 4 and 47.

CONCLUSION

During the four-year period covered by this examination, the surplus of the Plan has increased from $50,698,901, as presented in the December 31, 2015, report of examination, to $57,623,247, as shown in this report. The comparative assets and liabilities are:

	December 31, 2019	2015	Change
Assets	$ 249,150,945	$ 548,774,732	$ (299,623,787)
Liabilities	191,527,698	498,075,831	(306,548,133)
Surplus	$ 57,623,247	$ 50,698,901	$ 6,924,346

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Tho Le, CFE, APIR, and Lori A. Kirschmann, insurance examiners, and Andrew D. Bux, ASA, MAAA, Life & Health Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, and Barbara A. Bartlett, CPA, MBA, CFE, Senior Manager Risk & Regulatory Consulting, LLC. participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin
Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark Giffin, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Moda Health Plan, Inc., Portland, Oregon.

2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of Moda Health Plan, Inc. was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark. A Giffin
Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 25th day of October, 2021.

/s/ Lauren Nicole Bodine
Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022