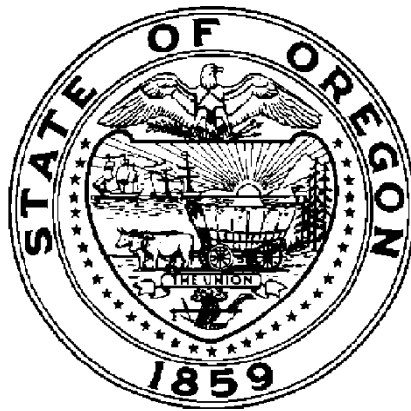


**DEPARTMENT OF  
CONSUMER & BUSINESS  
SERVICES**

**DIVISION OF FINANCIAL  
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**PACIFICSOURCE COMMUNITY HEALTH PLANS  
SPRINGFIELD, OREGON**

AS OF

DEC. 31, 2022

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**PACIFICSOURCE COMMUNITY HEALTH PLANS  
SPRINGFIELD, OREGON**

**NAIC COMPANY CODE 12595**

DEC. 31, 2022

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## **SALUTATION**

Nov. 13, 2023

Honorable Andrew Stolfi, director  
Department of Consumer and Business Services  
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

**PACIFICSOURCE COMMUNITY HEALTH PLANS**  
**555 International Way**  
**Springfield, Oregon 97477**

**NAIC Company Code 12595**

Hereinafter referred to as the “Company” or the “Plan.” The following report is respectfully submitted.

## **SCOPE OF EXAMINATION**

We have performed our single-state, full-scope examination of PacificSource Community Health Plans. The examination was conducted in conjunction with the examination of its parent health care service contractor, PacificSource Health Plans, and a separate report of examination will be prepared for that entity. The last examination of this life and health insurance company was completed as of Dec. 31, 2017. This examination covers the period of Jan. 1, 2018, to Dec. 31, 2022.

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 company 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 Company were considered in accordance with the risk-focused examination process. This included 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 Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.312 and general information about the Company and its financial condition. There may be other

items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

### **COMPANY HISTORY**

Central Oregon Independent Health Systems was incorporated in Oregon on June 5, 1995, by Central Oregon Independent Practice Association (COIPA) and Central Oregon Hospital Network (CoNET) to administer a fully capitated contract for the Oregon Health Plan through the Division of Medical Assistance Programs (DMAP).

On April 24, 1998, the Company received a certificate of authority as a for-profit health care service contractor pursuant to ORS Chapter 750, at which time it was qualified by the Centers for Medicare and Medicaid Services (CMS) as one of the first Provider Sponsored Organizations in the nation to write Medicare+Choice business. Beginning in 2001, the Company expanded its operations and began offering commercial health plans in the large-group employers market, expanding into small-group employers during 2004. Effective Jan. 1, 2004, all DMAP business was transferred to a newly formed subsidiary, Clear Choice Individual Health Solutions.

The Company formed a shell subsidiary on Dec. 12, 2005, as a for-profit stock corporation, to facilitate the conversion of the Company from a health care service contractor authorized to transact health insurance under ORS Chapter 750 to a life and health insurer authorized under ORS Chapter 731. The new company, Clear Choice Health Plans, Inc., was granted a Certificate of Authority on June 23, 2006, and the conversion was completed effective March 15, 2007. On June 23, 2009, the Company amended its articles of incorporation to change its name to Clear One Health Plans, Inc.

On Jan. 26, 2010, PacificSource Health Plans filed a Form A with the Oregon Department of Consumer and Business Services (DCBS), Division of Financial Regulation (DFR) to acquire the Company and its subsidiaries. The acquisition was approved by order March 17, 2010, and on May 21, 2010, Clear One became a wholly owned direct subsidiary. On Jan. 28, 2011, the Company amended its articles to change its name to PacificSource Community Health Plans, Inc. On Dec. 31, 2014, the Company converted to a not-for-profit health care service contractor under ORS Chapter 750.

### **Capitalization**

The Company has no capital stock, and currently, reports \$80 million in gross paid-in and contributed surplus. At YE 2019, the Company received a surplus contribution of \$55 million from its parent, PacificSource Health Plans. The surplus contribution was distributed to the Company's subsidiary, PacificSource Community Solutions (PCS). At YE 2020, the Company received an additional \$25 million surplus contribution from its parent, which was also distributed to PCS. The Company has one member, PacificSource Health Plans, an Oregon nonprofit health care service contractor.

### **Dividends and other distributions**

On Sept. 21, 2022, notification was given to DFR and to the Oregon Health Authority that dividends had been declared. On Nov. 10, 2022, a \$30 million dividend was paid to the Plan from PacificSource Community Solutions, a direct subsidiary of Coordinated Care Organization. On Nov. 15, 2022, the \$30 million dividend was paid from the Plan to PacificSource Health Plans, sole member and direct parent of the Plan.

## **CORPORATE RECORDS**

### **Board minutes**

In general, the review of the board meeting minutes of the Company indicated the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum, as defined by the Company's bylaws, met at all of the meetings held during the period under review.

Neither the Plan's articles nor its bylaws authorize any specific committees. Article 6 of the bylaws allows the board to establish committees it deems necessary and desirable. The Plan's board has created committees that oversee and support the PacificSource Group; an Audit and Compliance Committee, an Executive Committee, a Finance Committee, a Board Governance Committee, and an Executive Compensation Committee.

The minutes indicated the board directly approves the CEO's compensation through an executive session of the board and indirectly approves the compensation of senior executives through approval of an annual budget. This process complies with the provisions of ORS 732.320(3).

### **Articles of incorporation**

The Articles of Incorporation were filed on Dec. 12, 2005, and last amended on Aug. 12, 2014, to change the Company to a nonprofit entity. The Articles of Incorporation conformed to the Oregon Insurance Code.

### **Bylaws**

Effective Oct. 17, 2016, the Plan's corporate bylaws were amended and restated to reflect the partnership with Legacy Health and Pacific Health Associates, and their subsequent participation on the board of directors. Article 3 of the Plan's corporate bylaws state the number



of directors shall be no less than five members and no more than 15 members. Each director shall hold office until the annual meeting of the sole member (PacificSource) in which his or her term expires or until his or her successor is elected and qualified or until death, resignation or removal. A quorum of the board of directors shall consist of at least two-thirds of the number of directors in office immediately before the meeting begins. A quorum shall not be met unless at least three representatives from Pacific Health Associates designees and three representatives from the Legacy Health designees are present at any given meeting of the board. The Plan's bylaws conformed to Oregon statutes.

### **MANAGEMENT AND CONTROL**

#### **Board of directors**

The bylaws, in Article III, state the business and affairs of the corporation shall be managed by the board of directors. The board shall consist of no fewer than 5, and no more than 15, the specific number to be set by the board. As of Dec. 31, 2022, the Company was governed by a 15 member board of directors as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Affiliation</u></b>	<b><u>Representative</u></b>	<b><u>Member Since</u></b>
*Jack Arthur Friedman Portland, Oregon	Health Care Consultant Self-Employed	Public	2020
Claire Leona Spain- Remy, MD Lakewood, Washington	Retired	Medical	2017
David Andre Vinson Austin, Texas	President & CEO Popup, Rx.	Public	2017
Mark Joseph Werner, MD Minneapolis, Minnesota	Director The Charles Group Consulting	Medical	2017
Patricia Jean Schmitt Redmond, OR	Retired	Public	2014
Roger Maxamillian Saydack	Adjunct Professor, Co-Trustee University of Oregon Law School	Public	2014

Eugene, Oregon

Edwin Eric Dahlberg Boise, Idaho	Retired	Public	2014
Richard Lee Wright, Jr. Portland, Oregon	President and CEO Market of Choice	Public	2014
Divya Sharma, MD Bend, Oregon	Physician, Chief Medical Director LaPine Community Health Center Consultant	Medical	2012
Jeffrey Bruce Barber Georgetown, Texas	Self-Employed	Public	2016
Anna Lynn Loomis Lake Oswego, Oregon	SVP, CFO Legacy Health System	Company	2018
George Joseph Brown, MD Olympia, Washington	Retired	Public	2016
Charles Zachem, III, DO Eugene, Oregon	Physician/Partner Eugene-Springfield Nephrology Associates, P.C.	Medical	2018
Kathryn Golden Correia Portland, Oregon	President & CEO Legacy Health	Company	2018
DeOna Bridgeman, MD Newberg, Oregon	Medical Director Davies Clinic, P.C.	Medical	2020

\*Chairman

Under Oregon law, ORS 750.015, not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor shall be representatives of the public who are not practicing doctors, or employees, or trustees of a participant hospital. The Company was in compliance with this statute.

### **Officers**

Principal Officers serving at Dec. 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Kenneth P. Provencher	President and CEO
Peter F. Davidson	Executive VP and CFO
Erick T. Doolen	Executive VP and COO
Dan Stevens	Executive VP
John E. McEachern	Executive VP and chief medical officer
Jack Friedman	Board chair
Lindsey Hopper	Executive VP
Kristin E. Kernutt	Secretary
Mark Werner, MD	Chair-elect

### **Conflict of interest**

The Company's board adopted a formal statement of policy concerning conflict of interest for all directors, officers and responsible employees. 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, the Company's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

### **Insurance company holding system**

The following organizational chart shows the relationship between the related entities of the Company:



Pacific Health Associates is a 501c4 nonprofit organization designed to provide grants for charitable purposes, including grants with a focus on health and welfare of the poor and needy to lessen the burdens of government, improve patient experience with health care, to improve the health of individuals in the community, and to reduce the per capita cost of health care. Grants also support community health initiatives to increase access to care, improve community health education, and provide primary and behavioral health care to uninsured and underinsured individuals. It has a 50 percent corporate member interest in PacificSource.

Legacy Health is a nonprofit hospital system located in Portland, Oregon consisting of 6 primary care hospitals, a full service children's hospital, and over 70 allied clinics and

outpatient facilities in Portland, Oregon and Vancouver, Wash. It has a 50 percent corporate member interest in PacificSource.

PacificSource, an Oregon nonprofit public benefit corporation, was formed on July 1, 2013, under Chapter 65 of the Oregon Revised Statutes to act as the holding company for the insurance group.

PacificSource Properties, LLC is a limited liability company located in Springfield, Oregon that owns the Company's headquarters building at 555 International Way in Springfield. PacificSource is the sole member.

PacificSource Health Plans (PSHP) is an Oregon domiciled health care service contractor formed in 1933 as a nonprofit public benefit corporation with members. The sole member is PacificSource. PSHP owns or controls the following entities:

- PacificSource Administrators, Inc. (PSA), an Oregon domestic business corporation formed on Dec. 31, 2002, is a third-party administrator formed by the acquisition of Manley Services, Select Benefit Administrators, and Riverside Benefit Administrators. It specializes in reimbursement administration of self-funded employee health benefit plans including Flexible Spending Accounts (FSA), Health Reimbursement Account (HRA) plan management, and COBRA administration.
- PacificSource Community Health Plans (PCHP), an Oregon domiciled nonprofit health care service contractor. As described in the History section above, it writes Medicare Advantage plans.

In addition to the above wholly-owned subsidiaries, PSHP is the upstream parent of the following:

PacificSource Assurance, Inc. (PAI) (formally named “Primary Health, Inc”) resulted from the PacificSource acquisition in Idaho in 2009. It is currently a shell company but in the future will likely be used for stop-loss and student health coverage in Washington. PAI has a 60 percent ownership interest in IPN, Inc.

IPN, Inc. (IPN), an Idaho for-profit corporation formerly known as Idaho Physicians Network, Inc., is owned 60 percent by PacificSource Assurance, Inc. and 40 percent by other investors. IPN is the Idaho provider network for some of Idaho’s largest health plans, including United HealthCare, Aetna, Cigna, and Great West Health Plans in addition to Primary Health Plan. IPN was started in 1993, and now works with 75 national and regional based insurance companies, third-party administrators, as well as local and state insurers.

PacificSource Community Solutions, Inc., (PCS), an Oregon nonprofit corporation 100 percent owned by PCHP, was originally formed on Nov. 7, 2003, as Central Oregon Individual Health Solutions, Inc., to contract with the Division of Medical Assistance Programs (DMAP) for the Oregon Health Plan contract. It was renamed on Jan. 12, 2011, after being acquired by PacificSource. It qualified as a Coordinated Care Organization (CCO) to provide Oregon Health Plan coverage to individuals with limited income and assets.

### **INTERCOMPANY AGREEMENTS**

The following agreements are in place between the Plan and its affiliates or subsidiaries within the insurance company holding system.

Administrative services agreement between the Plan and PacificSource

Effective Jan. 1, 2014, and amended on Jan. 1, 2015, April 1, 2015, Jan. 1, 2016, Sept. 1, 2016, Jan. 1, 2017, Feb. 1, 2018, Feb. 1, 2019, Feb. 1, 2020, Feb. 1, 2021, and again on Feb. 1, 2022, PacificSource agrees to provide the Plan with the following services: Executive oversight, data processing, management and storage services, claims processing services, accounting and financial management services and support, office furniture and equipment, legal services, marketing services and support, sales services and support, administrative services, health services support, provider network support, actuarial, underwriting and analytics services, internal audit resources, compliance resources, and other services mutually agreed upon by both parties. For services provided, the Plan agrees to pay PacificSource:

- A monthly amount due and payable on or before the 15th of each month in accordance with the schedule in Exhibit A.
- The amount, if any, by which calendar year expenses incurred by PacificSource to provide the services exceeds the budgeted amount at the time the parties determined the base monthly fee. The excess amount can be paid on a quarterly or annual basis as PacificSource determines, within 30 days after PacificSource provides the Plan an invoice or accounting for the amount together with supporting documentation for the invoice that is satisfactory to the Plan.
- The actual cost of third-party services PacificSource obtains for the benefit of the Plan (i.e. fees for outside accountants to audit PCHP's financial statements, fees for outside legal counsel). A billing for these amounts will be submitted to the Plan monthly based on the amounts expended by PacificSource during the preceding month.

The annual amendments are mainly to update the monthly compensation paid by the Plan to PacificSource for the above services provided under the agreement for the upcoming calendar year once that year's budget is approved by the board of directors. The fourth amendment effective Sept. 1, 2016, also included a provision for PacificSource to provide sufficient office

space for the current and future planned business operations of the Plan, including the associated expenses related to the provision of the office space (i.e. utilities, property tax, building management and other expenses). The second amendment also revised the agreement's termination provision.

#### Tax allocation agreement

Effective Dec. 31, 2013, the parties entered into a consolidated tax allocation agreement between PacificSource (PS) (holding company); PacificSource Health Plans (PSHP); the Company; PacificSource Administrators, Inc. (PSA); PacificSource Assurance, Inc. (PAI); and PacificSource Community Solutions (PCS). The agreement requires all subsidiaries to pay PS the portions of the tax liability related to them. All tax payments are to be settled within 90 days of filing the tax return. Subsidiaries are also required to advance to the holding company amounts necessary to reimburse the holding company for its portion of estimated federal income tax payments related to the subsidiary on an interim basis. Subsidiaries are required to pay the holding company within 30 days of receiving notice of the amount due. After filing the consolidated income tax return, if the allocated tax to a subsidiary exceeds the estimated tax, the subsidiary is required to pay the holding company the excess amount. If estimated tax exceeds the allocated tax, the holding company shall reimburse the excess back to the subsidiary.

#### License agreement

Effective Jan. 1, 2014, an agreement was entered into between PacificSource (holding company); PacificSource Health Plans; the Company; PacificSource Community Solutions (PCS) and PacificSource Administrators, Inc. (PSA). Holding company granted to the Plan, PCS, and PSA a nonexclusive, nontransferable, license to use the Mark. The Plan, PSHP, PCS, and PSA agreed not to further license or assign the rights provided under the agreement to any



further entities without the express, written consent of the holding company. All listed subsidiaries agreed that the holding company is the owner of the Mark, and that all use of the Mark shall inure to the benefit of the holding company. Subsidiaries listed agreed that it has no rights, title or interest in the Mark other than the right to use the Mark per the terms of the Agreement. No license fee was charged for the use of the Mark. The Mark will be used in the ordinary course of business and will be monitored by the holding company.

#### CCO Affiliation Agreement

Effective Jan. 1, 2021, the Plan and PacificSource Community Solutions (PCS) entered into a CCO Affiliation Agreement for the purpose of coordinating care for the Oregon Health Plan fully dual eligible members that are enrolled in PCS's CCO in Lane County and the Central Oregon and Columbia Gorge regions, and in a Medicare Advantage Plan of the Plan. The plans agree to periodically identify members of PCS that do not currently participate in a company Medicare Advantage plan, and send information regarding the opportunity of dual enrollment. Other provisions of the plan relate to the treatment of shared data, care coordination and mutual indemnification. No payment is owed either party in exchange for services and the agreement automatically renews for one year terms, with 150 day advanced notice being required before termination can take effect.

#### **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. Coverage protected PacificSource Health Plans and all subsidiary companies as a named insured. The group as a whole is insured up to \$5 million per occurrence, after a \$25,000 deductible per single loss,

against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the minimum coverage recommended by the NAIC.

Other insurance coverages in force at Dec. 31, 2022, were found to be adequate, and are as follows:

Commercial property	Managed care errors and omissions
Crime coverage	Director's and officer's liability
Commercial auto	Fiduciary
Umbrella/catastrophe liability	Employed lawyers liability
General liability	Cyber liability
Employee Practices Liability	Home Office Flood Coverage

### **TERRITORY AND PLAN OF OPERATION**

The Company is a not-for-profit health care service contractor which offers exclusively Medicare Advantage plans with certificates of authority in Oregon, Idaho, Montana, and Washington on a PPO and HMO plan basis. The Plan had 39,258 members covered at YE 2022. Medicare Advantage plans are offered with and without Part D prescription drug coverage in Oregon and Idaho.

The Company reported total enrolled members over the past five years as follows:

<b><u>Line of Business</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Indiv. hospital and medical	-	-	-	-	-
Group hospital and medical	-	-	-	-	-
Medicare supplement	-	-	-	-	-
Dental	-	-	-	-	-
Medicare	39,258	35,832	36,250	33,131	30,109
Other	-	-	-	-	-
Total enrollment	<u>39,258</u>	<u>35,832</u>	<u>36,250</u>	<u>33,131</u>	<u>30,109</u>

In 2022, the Company reported direct business in the following States:

<b><u>State</u></b>	<b><u>Direct Premiums Written</u></b>
Idaho	\$138,512,605
Montana	8,394,143
Oregon	293,075,858
Washington	<u>13,616,426</u>
Total	<u>\$453,599,032</u>

## **GROWTH OF THE COMPANY**

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's filed annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Capital and Surplus</u></b>	<b><u>Net Income (Loss)</u></b>
2018	127,914,945	41,495,629	86,419,316	(2,359,282)
2019	195,450,159	38,992,064	156,458,094	3,588,290
2020	269,711,676	56,706,115	213,005,561	22,204,826
2021	319,579,047	67,204,444	252,374,604	8,325,230
2022*	356,235,793	66,943,216	289,292,577	42,170,809

\*Per examination

## **LOSS EXPERIENCE**

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

<b><u>Year</u></b>	<b>(1) <u>Total Revenues</u></b>	<b>(2) <u>Total Hospital and Medical</u></b>	<b>(2)/(1) <u>Medical Loss Ratio</u></b>	<b>(3) <u>CAE and General Expenses</u></b>	<b>(2)+(3)/(1) <u>Combined Loss Ratio</u></b>
2018	309,167,970	267,174,008	86.4%	27,169,544	100.6%
2019	343,575,828	292,472,975	85.1%	36,640,443	99.4%
2020	400,751,164	331,794,431	82.8%	30,820,583	93.3%
2021	404,706,632	348,882,351	86.2%	41,668,855	97.9%
2022*	452,888,943	386,257,000	85.3%	41,702,844	97.6%

\*Per examination

A combined claims and expense to premium ratio in excess of 100 percent typically indicates an underwriting loss. The Plan reported underwriting losses in one of the last five years.

## **REINSURANCE**

### **Assumed**

None.

### **Ceded**

At Dec. 31, 2022, the Company was covered by an HMO Specific Excess Loss Reinsurance agreement with RGA Reinsurance Company (NAIC #93572, authorized in Oregon since May 25, 1982). The Agreement covers Medicare Advantage and Medicaid members from PacificSource Community Solutions, Inc. It also covers Medicare Advantage members included in the expansion into Lane County Oregon and Southwest Idaho. The Plan retains \$800,000 for the first layer, with an annual limit of \$1,200,000 per member per agreement period; \$2 million for the second layer, with an annual limit of \$3 million; and \$5 million for the third layer with an unlimited annual limit.

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. The agreement also contained a settlement clause and an entire agreement clause, as required by OAR 836-012-0310 and OAR 836-012-0320, respectively.

In view of the Company's reported surplus of \$289,292,577 at Dec. 31, 2022, the Company does not maintain risk on any one subject in excess of ten percent of its surplus to policyholders, in compliance with ORS 731.504.

## **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Dec. 31, 2022, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

### **STATUTORY DEPOSIT**

The Company reported \$1,771,738 in cash as a deposit held with the Oregon Division of Financial Regulation, for the benefit of all policyholders. The deposit was verified from the records of the Oregon Division of Financial Regulation. The deposit was properly listed in the 2022 annual statement on Schedule E – Part 3.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no adjustments made to surplus and two recommendations were made in the 2017 report of examination as follows:

I recommend the Plan amend the ceded reinsurance agreement with PartnerRe America Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310.

I recommend the Plan have the board of directors approve all investment transactions on a regular basis, and that a formal resolution be voted on by the board at each meeting, pursuant to ORS 733.730.

Both recommendations have been resolved.

### **SUBSEQUENT EVENTS**

Ken Provencher, the Company's president and CEO for 21 years, retired on March 31, 2023. Mr. Provencher worked for the Company for 28 years, and was only the fifth CEO since the Company's inception in 1933.

The Company hired Dr. John "Espi" Espinola as the new President and CEO on April 3, 2023. Dr. Espinola has over 20 years of leadership experience in health care.

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of PacificSource  
Community Health Plans, as of Dec. 31, 2022:

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

**PACIFICSOURCE COMMUNITY HEALTH PLANS**  
**ASSETS**  
**As of Dec. 31, 2022**

<b>Assets</b>	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Bonds	\$64,126,198	\$ -	\$64,126,198	1
Common stocks	238,710,415	-	238,710,415	1
Cash, cash equivalents and short-term investments	29,091,867	-	29,091,867	1
Other invested assets	-	-	-	
Receivable for securities	52,908	-	52,908	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$331,981,387</u>	<u>\$ -</u>	<u>\$331,981,387</u>	
Investment income due and accrued	442,074	-	442,074	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	384,525	-	384,525	
Accrued Retrospective Premiums (\$3,230,541) and Contracts subject to redetermination (\$(212,000))	3,018,541	-	14,171,000	
Reinsurance				
Amounts recoverable from reinsurers	793,628	-	793,628	
Other amounts receivable under reinsurance contracts	3,160	-	3,160	
Amounts receivable for uninsured plans	6,446,182	-	6,446,182	
Current federal income tax recoverable	1,356,425	-	1,356,425	
Net deferred tax asset	723,400	-	723,400	
Receivables from parent, subsidiaries and affiliates	117,382	-	117,382	
Health care receivables	<u>10,969,089</u>	-	<u>10,969,089</u>	
Total assets	<u>\$356,235,793</u>	<u>\$ -</u>	<u>\$356,235,793</u>	

**PACIFICSOURCE COMMUNITY HEALTH PLANS**  
**LIABILITIES, CAPITAL AND SURPLUS**  
**As of Dec. 31, 2022**

<b>Liabilities, Surplus and other Funds</b>	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Claims unpaid	\$ 55,866,612	\$ -	\$ 55,866,612	2
Accrued medical incentive pool and bonus	6,846,153	-	6,846,153	2
Unpaid claim adjustment expenses	2,318,694	-	2,318,694	2
Aggregate health policy reserves	-	-	-	
Premiums received in advance	349,866	-	349,866	
General expenses due or accrued	99,684	-	99,684	
Current federal income tax payable	24,287	-	24,287	
Ceded reinsurance premiums payable	62,974	-	62,974	
Amounts due to parent, subsidiaries and affiliates	49,563	-	49,563	
Liability for amounts held under uninsured plans	1,315,878	-	1,315,878	
Aggregate write-ins for other liabilities	<u>9,504</u>	<u>-</u>	<u>9,504</u>	
Total Liabilities	<u>\$ 66,943,216</u>	<u>\$ -</u>	<u>\$ 66,943,216</u>	
	\$		\$	
Gross paid in and contributed surplus	80,000,000	\$ -	80,000,000	
Unassigned funds (surplus)	<u>209,292,577</u>	<u>-</u>	<u>209,292,577</u>	
Surplus as regards policyholders	<u>289,292,577</u>	<u>-</u>	<u>289,292,577</u>	
Total Liabilities, Surplus and other Funds	<u>\$356,235,793</u>	<u>\$ -</u>	<u>\$356,235,793</u>	



**PACIFICSOURCE COMMUNITY HEALTH PLANS,  
STATEMENT OF REVENUE AND EXPENSES  
For the Year Ended Dec. 31, 2022**

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$452,888,943	\$ -	\$452,888,943	
Change in unearned premium reserve and reserve for rate credits	-	-	-	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for non-health care related revenues – gain on sale of fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total revenues	452,888,943	-	452,888,943	
Hospital and Medical				
Hospital/medical benefits	317,844,278	-	317,844,278	
Other professional services	17,185,270	-	17,185,270	
Outside referrals	5,874,429	-	5,874,429	
Emergency room and out-of-area	8,876,660	-	8,876,660	
Prescription drugs	31,621,783	-	31,621,783	
Incentive pool, withhold adjustments and bonus amounts	<u>6,440,511</u>	<u>-</u>	<u>6,440,511</u>	
Subtotal	387,842,931	-	387,842,931	
Less:				
Net reinsurance recoveries	<u>1,585,931</u>	<u>-</u>	<u>1,585,931</u>	
Total medical and hospital	386,257,000	-	386,257,000	
Non-health claims	-	-	-	
Claims adjustment expenses	27,352,650	-	27,352,650	
General administrative expenses	28,188,436	-	28,188,436	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>441,798,086</u>	<u>-</u>	<u>441,798,086</u>	
Net underwriting gain or (loss)	<u>11,090,857</u>	<u>-</u>	<u>11,090,857</u>	
Net investment income earned	32,387,531	-	32,387,531	
Net realized capital gains (losses)	<u>1,503,759</u>	<u>-</u>	<u>1,503,759</u>	
Net investment gains (losses)	33,891,290	-	33,891,290	
Net gain or (loss) from agents' or premium balances charged off	(28,889)	-	(28,889)	
Aggregate write-ins for other income or expense	1,039	-	1,039	
Net income (loss) after capital gains tax and before all other federal income taxes	44,954,297	-	44,954,297	
Federal income taxes incurred	<u>2,783,488</u>	<u>-</u>	<u>2,783,488</u>	
Net income	<u>\$ 42,170,809</u>	<u>\$ -</u>	<u>\$ 42,170,809</u>	

**PACIFICSOURCE COMMUNITY HEALTH PLANS**  
**RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION**  
**For the Year Ended Dec. 31,**

	2022	2021	2020	2019	2018
Surplus as regards policyholders, Dec. 31, previous year	<u>\$252,374,605</u>	<u>\$213,005,562</u>	<u>\$156,458,094</u>	<u>\$86,419,316</u>	<u>\$71,379,109</u>
Net income (loss)	42,170,809	8,325,230	22,204,826	3,588,290	(2,359,282)
Change in net unrealized capital gains or (losses)	22,865,677	31,809,489	10,642,034	11,966,631	6,249,570
Change in net deferred income tax	1,691,700	(694,700)	(317,600)	(188,000)	89,000
Change in non-admitted assets	189,797	(70,976)	(981,792)	(328,142)	11,060,918
Change in provision for reinsurance	-	-			
Change in surplus notes	-	-			-
Cumulative effects of changes in accounting principles	-	-	-		-
Capital changes:					
Paid in	-	-	-		-
Transferred from surplus (Stock Dividend)	-	-	-		-
Transferred to surplus	-	-	-		-
Surplus adjustments:					
Paid in	-	-	25,000,000	55,000,000	-
Transferred to capital (Stock Dividend)	-	-	-		-
Transferred from capital	-	-	-		-
Distributions to parent (cash)	(30,000,000)	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>36,917,972</u>	<u>39,369,043</u>	<u>56,547,468</u>	<u>70,038,779</u>	<u>15,040,207</u>
Surplus as regards policyholders, Dec. 31, current year	<u>\$289,292,577</u>	<u>\$252,374,605</u>	<u>\$213,005,562</u>	<u>\$156,458,095</u>	<u>\$86,419,316</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested assets

At year-end 2022, the Company’s long-term bond investments were in U.S. Treasury bonds, U.S. special revenue and special assessment obligations, and corporate issues. The Company did have a small exposure to mortgaged-backed (MBS) and asset-backed securities (ABS). All of the MBS/ABS issues were investment rated at year-end 2022, with a carrying book value of \$11.2 million comprising 17.6 percent of the total long-term bond portfolio, and 3.7 percent of all invested assets.

Common stocks included the equity in one wholly owned subsidiary, PacificSource Community Solutions; an Oregon based Coordinated Care Organization regulated by the Oregon Health Authority, totaling \$200,574,027. The remaining balance represents the book value of 15 separate mutual funds, 17 separate exchange traded funds, and industrial and miscellaneous unaffiliated publicly traded stocks.

Cash equivalents consisted of two money market mutual funds purchased on Dec. 30, 2022. The Company did not hold any short-term investments.

A comparison of the major investments over the past five years is as follows:

<u>Year</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Ratio</u>	<u>Ratio</u>	<u>Ratio</u>
	<u>Bonds</u>	<u>Common Stocks</u>	<u>Cash and Short-term</u>	<u>A/ Total Assets</u>	<u>B/ Total Assets</u>	<u>C/ Total Assets</u>
2018	30,228,597	55,710,124	21,550,727	23.6%	43.5%	16.8%
2019	55,681,624	124,533,571	1,494,235	28.5%	63.7%	0.7%
2020	50,250,589	162,694,017	38,355,865	18.6%	60.3%	14.2%
2021	72,112,241	209,091,676	20,493,576	22.5%	65.4%	6.4%
2022*	64,126,198	238,710,415	29,091,867	18.0%	67.0%	8.2%

\*Balance per examination.

As of Dec. 31, 2022, sufficient invested assets were invested in amply secured obligations of the U.S., the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

A review of board of directors and committee minutes indicated the Finance Committee of the board formally approved all investment transactions for the years under review as required by ORS 733.730. The Plan uses Cardinal Investment Advisors to provide investment advisory services, including actively managing both fixed and equity portfolios in accordance with the Plan’s investment policy.

Effective April 13, 2020, the Plan entered into a custodial agreement with Wells Fargo Bank N.A. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

## **Note 2 – Actuarial reserves**

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by Michael D. Sink, life and health actuary for the Oregon Division of Financial Regulation. As part of his review, he examined the supporting statements prepared by Mark Florian, FSA, MAAA, vice president and chief actuary, who prepared the statement of actuarial opinion as of Dec. 31, 2022.

Mr. Sink reviewed the reconciliation of the data used in the Plan’s financial statement to the data in the actuarial work papers, including the statement of actuarial opinion and the actuarial memorandum, and found them to be consistent. Additionally, he reviewed the calculations and methodology performed by the Company in the supporting exhibits included in the actuarial memorandum. He also relied on the work performed by the examiners, who reviewed the underlying data used to create the annual statement filing, in addition to preparing his own independent calculations. He determined the following:

	<u>My estimate</u>	<u>Annual statement</u>
Claims unpaid	\$55,866,612	\$55,866,612
Accrued medical incentive pool and bonus payments	6,846,153	6,846,153
Unpaid claims adjustment expenses (CAE)	2,318,694	2,318,694
Aggregate health policy reserves	-	-
Total actuarial liabilities	<u>\$65,031,459</u>	<u>\$65,031,459</u>

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of Dec. 31, 2022 were reasonable. Mr. Sink’s total estimate agreed to the appointed actuary’s estimate. He concurred that the reserves of the Plan were reasonably stated as of Dec. 31, 2022.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The examiner made no changes to surplus and no recommendations as a result of this examination.

## **CONCLUSION**

During the five-year period covered by this examination, the surplus of the Company has increased from \$71,379,109 as presented in the Dec. 31, 2017, report of examination, to \$289,292,577, as shown in this report. The comparative assets and liabilities are:

**Dec. 31,**

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	<u>2022</u>	<u>2017</u>	<u>Change</u>
Assets	\$356,235,793	\$123,408,029	\$232,827,764
Liabilities	<u>66,943,216</u>	<u>52,028,920</u>	<u>14,914,296</u>
Surplus	<u>\$289,292,577</u>	<u>\$ 71,379,109</u>	<u>\$217,913,468</u>



**AFFIDAVIT**

STATE OF OREGON            )  
                                          )  ss  
County of Marion            )

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

1.     I have authority to represent the state of Oregon in the examination of PacificSource Community Health Plans, Springfield, 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 PacificSource Community Health Plans 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  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this 29th day of February, 2024.

/s/ Cindy R. Engle  
\_\_\_\_\_  
Notary Public for the State of Oregon

My commission expires: July 9, 2027