

STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
INSURANCE DIVISION
OFFICE OF THE DIRECTOR

In the Matter of:) Case No. INS 08-11-001
PREFERRED HEATH PLAN, INC.)
) IMMEDIATE ORDER OF SUPERVISION
) AND ORDER TO INCREASE CAPITAL AND
) SURPLUS

Pursuant to ORS 731.385, 734.043(2)(a) and 750.055(1)(a), (d), the Director, Department of Consumer and Business Services (DCBS), has reasonable cause to believe and has determined that Preferred Health Plan, Inc. (PHP), an Oregon health care service contractor, is in such condition that its continuation of business in the manner currently being conducted is hazardous to the public or to its insureds. The Director has authority under ORS 731.385(1)(d) and 734.043 to enter an order to increase capital and surplus and to initiate an immediate supervision of PHP.

Hazardous Condition

a. Inadequate Capital and Surplus, ORS 734.043(2)(a)

A for-profit health care service contractor such as PHP must maintain capital and surplus of not less than \$2,500,000. ORS 750.045(1). As of September 30, 2008, PHP reported capital and surplus of \$2,539,601. PHP has only been able to maintain positive capital and surplus because of significant infusions of capital since 2002. The current capital and surplus is only slightly above the required statutory minimum.

Further, the increases in capital and surplus have been primarily the result of infused capital contributions or sale of additional stock. The following amounts were contributed to PHP since its original \$1,300,000 capitalization:

Date	Description	Amount
• 2002	Contributed Surplus	\$ 526,569
• 2003	Common Stock	\$ 978,972
• 2003	Surplus Notes: Merle West	\$1,315,000
• 2004	Surplus Note: RRW Investment Group LLC	\$2,100,000
• 2005	Common Stock	\$ 49,500
• 2006	Common Stock	\$1,045,008

The total capital and surplus contributed to PHP since its initial capitalization totals \$6,015,049. Adverse findings, reported in annual, quarterly, and monthly statements, *see* OAR 836-013-0110(1),¹ indicate that the company has inadequate capital and surplus. As such, PHP is in a hazardous financial condition, a basis for an immediate order of supervision. ORS 734.043(2)(a).

b. Excessive Operating Losses, ORS 731.385(1)(d) and 734.043(2)(a)

The operating net loss for the nine month period ending September 30, 2008, is \$927,607. PHP's capital and surplus in excess of the statutory minimum is \$39,601.² The operating loss is greater than 50 percent of PHP's excess capital and surplus (\$19,801), making PHP's continued operation hazardous to policyholders and others. OAR 836-013-0110(6). Based on the present loss amounts, in order not to be operating in a hazardous condition, PHP would need to have and maintain capital and surplus greater than \$4,355,214.³ Because PHP is in a hazardous financial condition, the Director may order it to increase its capital and surplus and enter an immediate order of supervision. ORS 731.385(1)(d); 734.043(2)(a).

¹ OAR 836-013-0110 was adopted pursuant to ORS 731.385. OAR 836-013-0100(1). ORS 731.385(1) authorizes the Director to adopt rules to establish standards to determine whether the continued operation of an insurer may be hazardous, for the purpose of carrying out ORS chapter 734.

² \$2,539,601 – 2,500,000 = \$39,601.

³ This amount is calculated as follows: \$927,607 (operating loss) x 2 + \$2,500,000 (minimum statutory capital) = \$4,355,214.

Order Requiring Abatement of Conditions

Pursuant to ORS 734.043(3)(b), the Director hereby notifies PHP that the following are the requirements to abate the conditions set forth above.

PHP will reduce, suspend or limit the volume of business being accepted or renewed, *see also* ORS 731.385(1)(a), by discontinuing policies or revising policy rates (in accordance with contract terms) in order to create acceptable loss ratios.⁴ PHP must take the necessary steps to achieve a combined loss ratio not to exceed 100% by the expiration date of this order.

PHP will budget its operations for the next 60 days to eliminate unnecessary or excessive expenses during that period.

By the expiration date of this order, PHP will obtain an infusion of sufficient capital, to increase its aggregate capital and surplus to not less than \$4,355,214, from sources fully familiar with its financial condition and the risk of investment in the company.

Order Appointing Supervisor

Pursuant to ORS 734.043(3)(c) and (4), the Director hereby notifies PHP that commencing from Monday, November 17, 2008, for a period of 60 days (subject to extension under ORS 743.047(2)), PHP is under supervision of the Director, that the Director is applying ORS 734.043 to 734.055 in conducting said supervision, and that the Director appoints Tim Hurley, Insurance Division Examiner, as supervisor of PHP.

⁴ According to the DCBS Report of Financial Examination of PHP, as of December 31, 2006, PHP has had a historical loss ratio from inception from 2002 through 2006 of between 105% and 117%. During 2005, the company reported a loss ratio of 98%. The report states: "Typically a ratio greater than 100% indicates an underwriting loss." Losses were offset by the issuance of subordinated surplus notes totaling \$3,415,000, the sale of common capital stock totaling \$2,073,480, and additional gross paid in and contributed surplus totaling \$526,569.

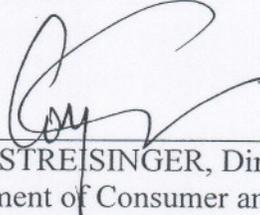
Order Prohibiting Actions by PHP

Pursuant to ORS 734.043(5), the Director hereby orders that PHP, its directors, officers, agents and employees, and PHP's parent, Sky Lakes Medical Center, Inc. (formerly known as Merle West), its directors, officers, agents and employees, and all others affiliated with PHP, are all prohibited from taking any of the following actions without prior written approval of the supervisor:

1. Disposing of, conveying or encumbering any of PHP's assets or its business in force;
2. Withdrawing from any of PHP's bank accounts;
3. Lending any of PHP's funds;
4. Investing any of PHP's funds;
5. Transferring any of PHP's property;
6. Incurring any debt, obligation or liability on behalf of PHP;
7. Merging or consolidating PHP with any other insurer or person;
8. Entering into any new reinsurance contract or treaty on behalf of PHP;
9. Approving any new premium or renewing any policies of PHP;
10. Terminating, surrendering, forfeiting, converting or lapsing any insurance policy, certificate or contract, except for nonpayment of premium due;
11. Releasing, paying or refunding premium deposits, unearned premiums, or other reserves on any insurance policy, certificate or contract;
12. Making any material change in management;
13. Increasing salaries and benefits of officers or directors;
14. Making or increasing preferential payment of bonuses, dividends or other payments determined by the supervisor to be preferential; and/or
15. Any other action affecting the business or condition of PHP.

The Director orders that PHP, its directors, officers, agents and employees shall not engage in any of the above acts without prior written approval of the supervisor. If permitted by the supervisor, the following classes of disbursements may be made without prior individual approval: the payment of claims obligations arising from PHP's insurance policies, related claim adjusting expenses, payroll and related benefits, taxes and other obligations to governmental entities.

DATED this 6th day of November, 2008.



CORY STREISINGER, Director
Department of Consumer and Business Services

Notice of Right to Hearing

During the period of supervision, PHP may file a written request with the Insurance Division request a hearing to review the supervision, any action taken or proposed to be taken pursuant to the supervision or to review the order to increase capital and surplus. Such request will not suspend the supervision nor will it stay the effect of the order to increase capital and surplus. PHP must specify in its request the manner in which the action complained of would not result in improving the condition of PHP. If requested, a hearing will be held within 30 days after the filing of the request. ORS 731.385(3); 734.043(7).

If a hearing is requested, before commencement of the hearing, the parties will be notified of the time and place of the hearing. The parties will also be given information on the procedures, rights of representation and other rights relating to the conduct of hearings. At hearing, parties may be represented by an attorney.