

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

In the Matter of:) ORDER TO TAKE ACTION
PREFERRED HEALTH PLAN, INC.) AND ORDER EXTENDING SUPERVISION
)
) Case No. INS 2009-03-005

On November 6, 2008, the Director, Department of Consumer and Business Services (DCBS), had reasonable cause to believe and determined that Preferred Health Plan, Inc. (PHP), an Oregon health care service contractor, was in such condition that its continuation of business in the manner currently being conducted was hazardous to the public or to its insureds. The Director, therefore, issued an order on November 6, 2008 (Case No. INS 08-11-001). The order set forth the requirements to abate the conditions and placed PHP under the immediate supervision of the director for 60 days. Supervision was extended to March 18, 2009, by order dated March 5, 2009 (Case No. INS 2009-03-002).

Findings of Fact

PHP was ordered on November 6, 2008 (Case No. INS 08-11-001) to reduce, suspend or limit the volume of business being accepted or renewed by discontinuing policies or revising policy rates (in accordance with contract terms) in order to create acceptable loss ratios. PHP was to take the necessary steps to achieve a combined loss ratio not to exceed 100% within 60 days from the date of the order. PHP has not discontinued policies or revised policy rates in order to create loss ratios below 100 percent. PHP's combined ratio for the 12-month period ending December 31, 2008 was 112.5%. Financial information provided by PHP on March 17, 2009 indicates that for the 2-month period ending February 28, 2009 its combined losses, expenses and reserve adjustments exceeded premiums by \$396,360, which indicates a combined ratio in excess of 100%. PHP continues to operate in a hazardous manner.

PHP was ordered to budget its operations to eliminate unnecessary or excessive expenses during the 60-day period. PHP has eliminated unnecessary or excessive expenses during the period of supervision.

PHP was to 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. In lieu of obtaining an infusion of capital and surplus to increase its capital and surplus to not less than \$4,355,214, PHP provided the Director a board resolution of the Board of Directors of Sky Lakes Medical Center dated November 24, 2008, that ensured that PHP's capital and surplus would not fall below the statutory minimum of \$2,500,000.

On March 2, 2009, PHP submitted a financial statement that reflected capital and surplus totaling \$2,349,225.

Upon receipt of the financial statement filing that reflected capital and surplus below \$2,500,000, the Director issued an Order to Cure Impairment dated March 5, 2009 (Case No. 2009-03-001), which ordered that on or before May 4, 2009, PHP would cure its impairment and increase capital or surplus, or any combination thereof and maintain its capital or surplus, or any combination thereof, of no less than \$2,500,000.

On March 6, 2009, PHP submitted a financial statement that reflected capital and surplus totaling \$2,206,612 as of January 31, 2009.

On March 17, 2009, PHP provided certain financial information that indicated capital and surplus as of February 28, 2009, was \$1,677,733.

Order to Take Action

Pursuant to ORS 731.296 and 731.385, the Director hereby orders PHP that on or before 5:00 p.m., March 20, 2009, it shall communicate to the Director which one of the following actions it will take to satisfy this order.

1. PHP will obtain an infusion of sufficient capital or surplus, or any combination thereof, to increase its aggregate capital and surplus to not less than \$2,349,225¹, from sources fully familiar with its financial condition and the risk of investment in the company. PHP shall maintain this minimum level of surplus until it satisfies the Order to Cure Impairment dated March 5, 2009 (Case No. 2009-03-001).

¹ The amount of capital and surplus reported at 12/31/2008 and at the time the Order to Cure Impairment dated March 5, 2009 (Case No. INS 2009-03-001) was issued. PHP has until May 4, 2009 to cure the impairment by increasing, and maintaining, capital or surplus to no less than \$2.5 million.

2. PHP will submit for the Director's approval a plan of withdrawal pursuant to ORS 731.512 that includes notification to policyholders required in ORS Chapter 743.

3. PHP by a majority of its directors will consent to an order of rehabilitation as provided in ORS 734.150.

The Director further orders PHP that on or before 5:00 p.m., March 25, 2009, it shall provide one of the following:

A. If action 1 is selected, provide documentation that evidences an infusion of capital or surplus.

B. If action 2 is selected, provide a written plan of withdrawal, acceptable to the Director.

C. If action 3 is selected, documents properly executed by the board of directors that submits PHP to voluntary rehabilitation.

Order Extending Appointment of Supervisor

The Director notified PHP that commencing from Monday, November 17, 2008, PHP was under supervision of the Director for 60 days (subject to extension under ORS 734.047(2)) and that the Director appointed Tim Hurley, Insurance Division Examiner, as supervisor of PHP.

On March 5, 2009, the Director issued an order, Case No. INS 2009-03-002, that extended the supervision through March 18, 2009.

Pursuant to ORS 734.043(3)(c) and (4), the Director hereby notifies PHP that: (1) the period of supervision is hereby extended through May 17, 2009; (2) the Director is applying ORS 734.043 to 734.055 in conducting this supervision; and (3) the Director again appoints Tim Hurley, Insurance Division Examiner, as supervisor of PHP.

Order Prohibiting Actions by PHP

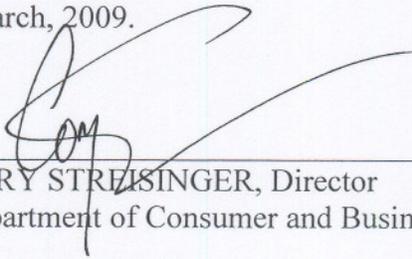
Pursuant to ORS 734.043(5), the Director orders that PHP, its directors, officers, agents and employees, and PHP's parent, Sky Lakes Medical Center, Inc. (formerly known as Merle West), its directors, officers, agents and employees, and all others affiliated with PHP, are all prohibited from taking any 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 18th day of March, 2009.



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 for 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 the hearing, parties may be represented by an attorney.