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

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| In the Matter of: | ) ORDER EXTENDING SUPERVISION |
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| PREFERRED HEALTH PLAN, INC. | ) Case No. INS 09-05-002 |

On November 6, 2008, the Director of the 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). Supervision was then extended to May 17, 2009, by order dated March 18, 2009 (Case No. INS 2009-03-005). Supervision was then extended to July 16, 2009, by order dated May 14, 2009 (Case No. INS 2009-05-002). Supervision was then extended to September 14, 2009, by order dated July 13, 2009 (Case No. INS 2009-05-002). Supervision was then extended to November 14, 2009, by order dated September 14, 2009 (Case No. INS 2009-05-002). Supervision was then extended to January 12, 2010, by order dated November 9, 2009 (Case No. INS 2009-05-002). Supervision was then extended to March 12, 2010, by order dated January 7, 2010 (Case No. INS 2009-05-002). Supervision was then extended to May 11, 2010, by order dated March 9, 2010 (Case No. INS 2009-05-002). Supervision was then extended to July 5, 2010, by order dated March 9, 2010 (Case No. INS 2009-05-002).

## Findings of Fact

The Director issued an Order to Cure Impairment dated March 5, 2009 (Case No. 2009-03-001), which required PHP to 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 or before May 4, 2009.

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

On March 17, 2009, PHP submitted a financial statement as of February 28, 2009, that reflected capital and surplus totaling $1,677,733.

On April 13, 2009, PHP submitted a financial statement as of March 31, 2009, that reflected capital and surplus totaling $1,557,087.

On or about May 4, 2009, PHP submitted a financial statement as of April 30, 2009, that reflected capital and surplus totaling $1,381,529.

On June 11, 2009, PHP submitted a financial statement as of May 31, 2009, that reflected capital and surplus totaling $1,496,865.

On July 10, 2009, PHP submitted a financial statement as of June 30, 2009, that reflected capital and surplus totaling $1,619,702.

On August 13, 2009, PHP submitted a financial statement as of July 31, 2009, that reflected capital and surplus totaling $1,659,467.

On September 14, 2009, PHP submitted a financial statement as of August 31, 2009, that reflected capital and surplus totaling $1,721,146.

On October 12, 2009, PHP submitted a financial statement as of September 30, 2009, that reflected capital and surplus totaling $1,747,495.

On November 23, 2009, PHP submitted a financial statement as of October 31, 2009, that reflected capital and surplus totaling $1,665,522.

On December 21, 2009, PHP submitted a financial statement as of November 30, 2009, that reflected capital and surplus totaling $1,643,164.

On February 25, 2010, PHP submitted a financial statement as of December 31, 2009, that reflected capital and surplus totaling $1,447,150.

On February 17, 2010, PHP submitted a financial statement as of January 31, 2010, that reflected capital and surplus totaling $1,421,903.

On March 10, 2010, PHP submitted a financial statement as of February 28, 2010, that reflected capital and surplus totaling $1,388,180.

On April 16, 2010, PHP submitted a financial statement as of March 31, 2010, that reflected capital and surplus totaling $679,130. The reduction in surplus during March 2010 is primarily due to PHP paying $685,806 to settle surplus notes totaling $2,100,000 issued to RRW Investment Group, LLC.

On May 18, 2010, PHP submitted a financial statement as of April 30, 2010, that reflected capital and surplus totaling $656,742.

On June 23, 2010, PHP submitted a financial statement as of May 31, 2010, that reflected capital and surplus totaling $637,794. This level of capital and surplus is below the statutorily required minimum of $2,500,000. As such, PHP continues to be impaired. In addition to being impaired, PHP continues to have excessive operating losses in relation to its capital and surplus. PHP's net operating loss for the twelve-month period ending May 31, 2010, was $174,165. The operating loss of $174,165 was greater than 50 percent of PHP's capital and surplus above the required $2,500,000 minimum. Pursuant to OAR 836-013-0110(6), as of May 31, 2010, PHP was operating in a hazardous manner.

On May 5, 2009, PHP's certificate of authority was suspended pursuant to ORS 731.414 (Case No. INS 09-04-003). During the period of suspension, PHP was ordered to not solicit or issue new policies of insurance in this state or assume any Oregon risk. PHP was also ordered to not issue beyond May 15, 2009, renewal policies. Suspension is continuous until rescinded by further written order.

**Order Extending Appointment of Supervisor**

Based on the above findings of fact, the Director finds that the conditions giving rise to the previous orders of supervision still exist. Therefore pursuant to ORS 734.043(3)(c) and (4) and ORS 734.047(2), the Director hereby notifies PHP that: (1) the period of supervision is hereby extended through August 23, 2010; (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 24th day of June, 2010.

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.