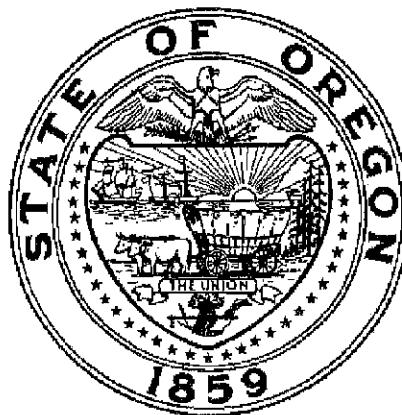


**STATE OF OREGON  
DEPARTMENT OF  
CONSUMER & BUSINESS SERVICES  
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**HEALTH PLAN OF CAREOREGON, INC.  
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2012

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**HEALTH PLAN OF CAREOREGON, INC.  
PORTLAND, OREGON**

**NAIC COMPANY CODE 12277**

AS OF

DECEMBER 31, 2012

## TABLE OF CONTENTS

<b>SALUTATION .....</b>	<b>3</b>
<b>SCOPE OF EXAMINATION.....</b>	<b>4</b>
<b>COMPANY HISTORY .....</b>	<b>4</b>
<i>Capitalization.....</i>	<i>5</i>
<i>Dividends and Other Distributions.....</i>	<i>5</i>
<b>CORPORATE RECORDS .....</b>	<b>5</b>
<i>Board Minutes.....</i>	<i>5</i>
<i>Articles of Incorporation.....</i>	<i>6</i>
<i>Bylaws .....</i>	<i>6</i>
<b>MANAGEMENT AND CONTROL .....</b>	<b>6</b>
<i>Board of Directors .....</i>	<i>6</i>
<i>Officers.....</i>	<i>7</i>
<i>Conflict Of Interest.....</i>	<i>8</i>
<i>Insurance Company Holding System.....</i>	<i>8</i>
<b>INTERCOMPANY AGREEMENTS.....</b>	<b>9</b>
<i>Management Agreement.....</i>	<i>9</i>
<b>FIDELITY BONDS AND OTHER INSURANCE.....</b>	<b>10</b>
<b>TERRITORY AND PLAN OF OPERATION .....</b>	<b>10</b>
<b>GROWTH OF THE COMPANY.....</b>	<b>11</b>
<b>LOSS EXPERIENCE .....</b>	<b>11</b>
<b>REINSURANCE .....</b>	<b>12</b>
<i>Stop-Loss Agreement.....</i>	<i>12</i>
<i>Insolvency Clause.....</i>	<i>12</i>
<i>Risk Retention.....</i>	<i>12</i>
<b>ACCOUNTS AND RECORDS.....</b>	<b>13</b>
<b>STATUTORY DEPOSITS.....</b>	<b>13</b>
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS.....</b>	<b>13</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>14</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>14</b>
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>19</b>
<i>Note 1 – Invested Assets.....</i>	<i>19</i>
<i>Note 2 – Actuarial Reserves.....</i>	<i>19</i>
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS.....</b>	<b>20</b>
<b>CONCLUSION .....</b>	<b>20</b>
<b>ACKNOWLEDGMENT .....</b>	<b>21</b>
<b>AFFIDAVIT .....</b>	<b>22</b>

**SALUTATION**

October 11, 2013

Honorable Laura N. Cali, Commissioner  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE  
Salem, Oregon 97301-3883

Dear Commissioner:

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

**HEALTH PLAN OF CAREOREGON, INC.  
315 SW Fifth Avenue, Suite 900  
Portland, Oregon 97204**

**NAIC Company Code 12277**

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

## **SCOPE OF EXAMINATION**

We have performed our examination of Health Plan of CareOregon, Inc., as a single state examination. The last examination of this health care service contractor was completed as of December 31, 2009. The current examination covers the period of January 1, 2010 to December 31, 2012.

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 and identify prospective risks of the Plan by obtaining information about the Plan, including corporate governance, identifying and assessing inherent risks within the Plan, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles, annual statement instructions, and Oregon statutes and administrative rules.

All accounts and activities of the Plan were considered in accordance with the risk focused examination process.

## **COMPANY HISTORY**

The Plan was incorporated in Oregon on January 12, 2005, as a for-profit health corporation to offer Medicare Advantage plan medical and drug coverage to enrollees who are dual eligible under both Medicare and Medicaid. Effective January 1, 2009, the Plan also began providing a commercial Medicare Advantage Part D plan for members who are not dually eligible, as the CareOregon Advantage STAR program. The federal government requires that Medicare contractors hold a license as an insurer at the state level.

CareOregon, Inc., the parent company, is a charitable non-profit organization that meets the requirements of Internal Revenue Code 501(c)(3). It is a fully capitated health plan writing business through the Oregon Health Plan, which is administered by the Oregon Health Authority of the Oregon Department of Human Services.

### **Capitalization**

The Plan's Articles of Incorporation authorize 10,000 shares common stock. At December 31, 2012, the Plan had 10,000 shares issued and outstanding, with a stated value of \$.001 per share reflecting a common capital stock account of \$10. As of December 31, 2012, CareOregon, Inc. owned all 10,000 authorized shares of the Plan's stock, representing 100% of the Plan's issued and outstanding shares of common stock.

### **Dividends and Other Distributions**

During the period under examination, the Plan did not declare or pay any cash dividends or make any distributions to its shareholder.

## **CORPORATE RECORDS**

### **Board Minutes**

Board members of the Plan are the same members of the parent, CareOregon, Inc. Joint meetings are held at least quarterly. A review of the Board of Director minutes indicated the Board performed its designated duties in managing the affairs of the Plan as specified in the Bylaws. Actions of the Board were supported by a quorum for those meetings. The Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. Minutes supported the transactions of the Plan and actions taken by its officers.

The Plan's Board does not directly approve the compensation of its senior officers. Instead, the parent's Board approves an annual budget which includes salaries and compensation reimbursed under the Services Agreement. This process complies with the provisions of ORS 732.320(3).

**Articles of Incorporation**

The Plan last amended its Articles of Incorporation on January 12, 2005. No changes were made to the Articles during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

**Bylaws**

The Plan's Bylaws have not been amended or updated since the formation of the corporation in 2005. No changes were made during the period under examination.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The Bylaws specify that all corporate powers shall be exercised by, or under the authority of, the Board of Directors and the business and affairs of the corporation shall be managed by, or under the direction of, the Board of Directors. The Bylaws, in Article 3.2, further state that the number of directors of the corporation shall be a minimum of five and a maximum of fifteen. At December 31, 2012, the Board was comprised of the following twelve individuals:

<b><u>Name and Address</u></b>	<b><u>Affiliation</u></b>	<b><u>Director Since</u></b>
Colleen A. Cain Portland, Oregon	Consultant	June 2006
Susan M. Clack, MD Tigard, Oregon	Physician Pacific Medical Group	June 2006
Beth deHamel Portland, Oregon	Chief Financial Officer Mercy Corp	January 2009

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
James A. Diegel Bend, Oregon	President & CEO St. Charles Health System	September 2011
David E. Ford Portland, Oregon	President and CEO CareOregon, Inc.	January 2005
Vickie S. Gates Portland, Oregon	Consultant	October 2008
Nathalie M. Johnson, MD Portland, Oregon	Medical Director Legacy Cancer Services	April 2010
Christopher J. Krenk Portland, Oregon	President and CEO Albertina Kerr Centers	June 2006
Lynwood R. Lundquist Power Butte, Oregon	Retired Oregon Business Association	June 2006
J. Bart McMullan, Jr., MD* Portland, Oregon	Retired – President Regence BCBS of Oregon	January 2005
Gilles M. Muñoz Hillsboro, Oregon	Executive Director Virginia Garcia Memorial Health Center	June 2006
Robert C. Stewart Gladstone, Oregon	Superintendent Gladstone School District	September 2010

\*Chairman

Although Dr. McMullan retains his MD designation, he is not currently a practicing physician.

The Board of Directors met the requirements of ORS 750.015, as eleven of the twelve directors were public representatives.

### Officers

Principal officers elected and serving the Plan at December 31, 2012, were as follows:

<u>Name</u>	<u>Office</u>
Patrick J. Curran	President and CEO
Carolyn "Fritz" J. Rankin	Secretary and COO
Teresa K. Learn	Chief Financial Officer
Margaret S. Rowland	Chief Medical Officer

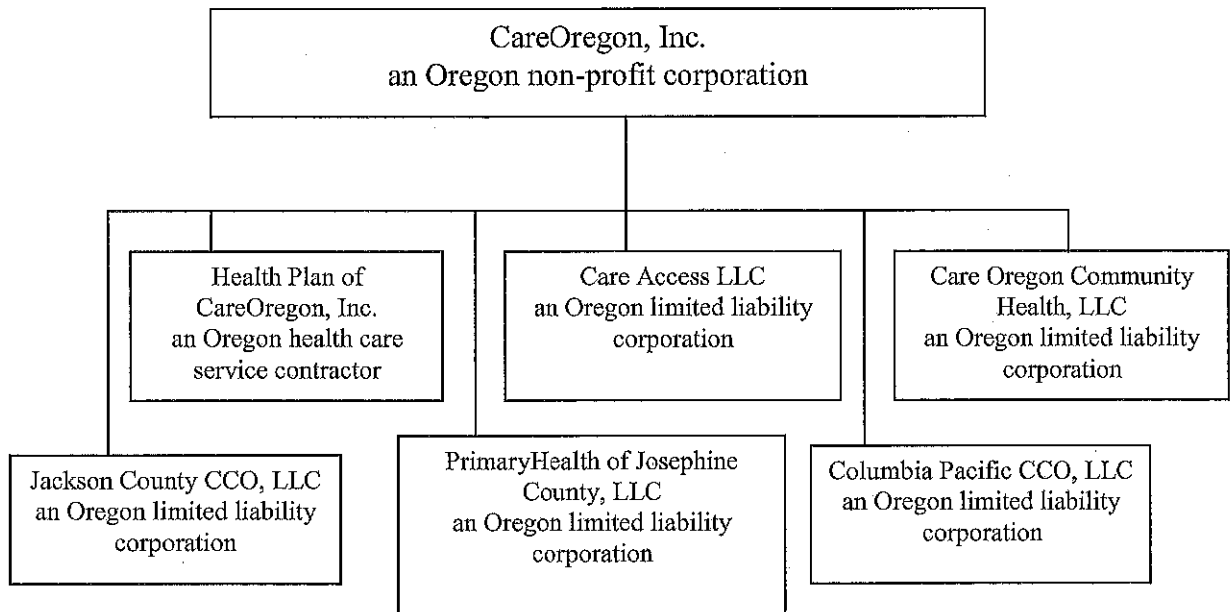


**Conflict Of Interest**

The Board adopted an employee handbook that contains guidelines on confidentiality and reporting of conflicts of interest. The Board members and senior officers annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Plan’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 within the insurance holding company system:



CareOregon, Inc. (CO) is an Oregon non-profit public benefit corporation registered with the IRS as an Internal Revenue Code 501(c)(3) corporation. CO has a contract with the Oregon Health Authority (OHA) as a fully capitated health plan to provide health care services to its enrollees by contracting with a network of community and private medical providers throughout the State of Oregon. It is the ultimate parent in the insurance company holding system.

Care Access LLC (CA) is an Oregon limited liability corporation formed on July 29, 2009. CA purchased a medical office building in July 2009, to improve access to primary care in the underserved Rockwood area of Gresham, Oregon.

CareOregon Community Health LLC (COC) is an Oregon limited liability corporation formed on April 23, 2010, to provide increased access to quality health care for CareOregon, Inc. members and those within its clinic communities.

Columbia Pacific CCO, LLC is an Oregon limited liability corporation formed in 2012 as part of the Oregon Legislature's plan to transform the OHP system through CCOs.

Jackson County CCO, LLC is an Oregon limited liability corporation formed in 2012 as part of the Oregon Legislature's plan to transform the OHP system through CCOs.

PrimaryHealth of Josephine County, LLC is an Oregon limited liability corporation formed in 2012 as part of the Oregon Legislature's plan to transform the OHP system through CCOs.

CareOregon, Inc. has management service agreements with all of its affiliates.

Timely and complete holding company registration statements were filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, ORS 732.564 and Oregon Administrative Rule (OAR) 836-27-020(1).

### **INTERCOMPANY AGREEMENTS**

The Plan operated as of December 31, 2012, under the following related party agreement:

#### **Management Agreement**

The management agreement with CareOregon Inc., entered into on January 14, 2005, and amended May 31, 2005 and November 15, 2007, requires CareOregon, Inc., to provide all

marketing, claims, reinsurance, investments, financial and accounting systems (including financial reporting), information system and data processing, medical management, enrollment and member services, and other compliance and administrative functions to the Plan. In exchange, the Plan agrees to pay all direct expenses and all reasonable expenses for office space and equipment, including compensation, benefits, and payroll taxes paid for employees of CareOregon, Inc., expensed on behalf of the Plan. Expense invoices are prepared monthly and are due within 15 business days.

### **FIDELITY BONDS AND OTHER INSURANCE**

The examination of insurance coverage involved a review of adequacy of limits and retentions and the solvency of the insurers providing the coverage. Fidelity coverage insures against employee dishonesty, counterfeiting, forgery or computer crimes committed by an employee. Losses up to \$1,000,000 are covered after a \$15,000 retention. Fidelity bond coverage was considered adequate based on the NAIC's recommended minimum coverage.

Other insurance coverages in force at December 31, 2012, were found to be adequate and included:

Property liability	Commercial umbrella liability
Business auto liability	Directors and officers liability
Workers' compensation	Errors and omissions

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

After the issuance of its Certificate of Authority in Oregon, the Plan completed its application to the Center for Medicaid and Medicare Services (CMS) to write Medicare Advantage business in the Clackamas, Clatsop, Columbia, Marion, Multnomah, Polk and Washington counties of Oregon. The Plan began writing business in January 2006 under the name "CareOregon Advantage." In 2007, the Plan applied, and was subsequently approved, to write Medicare Advantage business in Jackson and Josephine counties in Oregon effective January 1, 2008.

Effective January 1, 2009, the Plan also began providing a commercial Medicare Advantage Part D plan for members who are not dually eligible.

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

<b>Line of Business</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Individual hospital & medical	0	0	0	0	0
Group hospital & medical	0	0	0	0	0
Medicare supplement	0	0	0	0	0
Vision only	0	0	0	0	0
Dental only	0	0	0	0	0
FEHBP	0	0	0	0	0
Medicare	8,627	7,556	6,693	5,730	5,202
Medicaid	0	0	0	0	0
Other	0	0	0	0	0
<b>Total enrollment</b>	<b><u>8,627</u></b>	<b><u>7,556</u></b>	<b><u>6,693</u></b>	<b><u>5,730</u></b>	<b><u>5,202</u></b>

### **GROWTH OF THE COMPANY**

The growth of the Plan over the past five years is reflected in the following schedule. The stated amounts were derived from the Plan's filed annual statements, except for those years in which an examination was conducted by the Insurance Division of the Department of Consumer and Business Services.

<b>Year</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2008	\$41,581,760	\$12,476,411	\$29,105,348	\$10,249,586
2009*	40,664,938	13,645,555	27,019,383	3,739,337
2010	41,700,441	13,079,419	28,621,022	2,267,358
2011	49,830,197	15,235,108	34,595,089	6,412,030
2012*	57,907,737	19,185,448	38,722,289	3,888,524

\*Per examination

### **LOSS EXPERIENCE**

The annual underwriting results of the Plan over the last five years are reflected in the following schedule. The amounts were compiled from copies of the Plan's filed annual statements, except for those years in which an examination was conducted by the Insurance Division of the Department of Consumer and Business Services.

<u>Year</u>	<u>(1) Total Revenues</u>	<u>(2) Total Hospital and Medical</u>	<u>(2)/(1) Medical Loss Ratio</u>	<u>(3) Claim Adjustment and General Expenses</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2008	\$ 67,352,345	\$46,928,564	69.7%	\$12,162,402	87.7%
2009*	70,638,261	54,312,149	76.9%	11,077,180	92.6%
2010	78,954,846	67,488,722	85.5%	11,089,570	99.5%
2011	95,218,781	74,205,466	77.9%	12,647,919	91.2%
2012*	105,567,283	89,008,868	84.3%	12,207,086	95.9%

\*Per examination

A combined loss incurred and expense to premium ratio of more than 100% would indicate an underwriting loss. The Plan reported underwriting gains in each of the last five years.

## REINSURANCE

### Stop-Loss Agreement

For 2012 the Plan ceded reinsurance through a stop loss agreement with Physicians Insurance A Mutual Company (PI). Under terms of the agreement, PI reimburses the Plan for per member losses up to \$2,000,000, after a \$300,000 retention. Individual contract year maximum benefit per member is \$2,000,000. 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.

### Insolvency Clause

Reinsurance payments will be made without diminution to the Plan (as the ceding insurer) or its statutory successor should the Plan become insolvent. This clause complies with ORS 731.508.

### Risk Retention

The reinsurance agreement requires the Plan retain losses up to \$300,000 per person. Surplus was \$38,722,289 as of December 31, 2012; therefore, the Plan does not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders pursuant to the maximum risk retention set by ORS 731.504.

## **ACCOUNTS AND RECORDS**

In general, the Company's accounting and corporate records were maintained in manner in which the financial condition was readily verifiable as required by the provisions of ORS 733.170.

The Company maintains its accounting records on a modified Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Moss Adams, LLP. The Company received unqualified opinions for each of the three years under review.

## **STATUTORY DEPOSITS**

To satisfy the statutory deposit requirements in Oregon for a health care service contractor, the Plan has on deposit a US Treasury Bill at US Bank in the amount of \$303,334 with the Department of Consumer and Business Services, Insurance Division. This asset was confirmed directly by US Bank and was properly disclosed on Schedule E – Part 3 in the 2012 annual statement.

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There was one recommendation made in the 2009 report of examination; however, no adjustments were made to surplus as a result of the examination findings. In a follow-up review by the analyst performed in 2011, the Oregon Insurance Division concluded the Plan was in compliance with the recommendation.

### **SUBSEQUENT EVENTS**

There were no significant events noted during the financial examination that would require disclosure in this Report of Examination.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of Health Plan of CareOregon, Inc., as of December 31, 2012:

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

**HEALTH PLAN OF CARE OREGON, INC.**  
**STATEMENT OF ASSETS**  
**As of December 31, 2012**

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$42,820,086	\$ -	\$42,820,086	1
Cash, cash equivalents and short-term investments	13,165,993	-	13,165,993	1
Aggregate write-ins for invested assets	<u>0</u>	<u>-</u>	<u>0</u>	
Subtotal, cash and invested assets	<u>\$55,986,079</u>	<u>\$ -</u>	<u>\$55,986,079</u>	
Investment income due and accrued	435,014	-	435,014	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	824,141	-	824,141	
Amounts recoverable from reinsurers	40,000	-	40,000	
Net deferred tax asset	613,705	-	613,705	
Receivable from parent, affiliates and subsidiaries	8,798	-	8,798	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$57,907,737</u>	<u>\$ -</u>	<u>\$57,907,737</u>	



**HEALTH PLAN OF CAREOREGON, INC.**  
**STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS**  
**As of December 31, 2012**

Liabilities, Surplus and other Funds	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$14,515,593	\$ -	\$14,515,593	2
Accrued medical incentive pool and bonus	7,000	-	7,000	2
Unpaid claim adjustment expenses	504,000	-	504,000	2
Aggregate health policy reserves	866,655	-	866,655	2
Premiums received in advance	93,547	-	93,547	
General expenses due or accrued	154,828	-	154,828	
Current Federal Income Tax payable	57,880	-	57,880	
Amounts due to parent, subs and affiliates	792,862	-	792,862	
Liability for amounts due under uninsured plans	2,193,083	-	2,193,083	
Aggregate write-ins for liabilities	-	-	-	
<b>Total Liabilities</b>	<u>\$19,185,448</u>	<u>\$ -</u>	<u>\$19,185,448</u>	
Common capital stock	\$ 10	\$ -	\$ 10	
Gross paid in and contributed surplus	11,399,990	-	11,399,990	
Unassigned funds (surplus)	<u>27,322,289</u>	-	<u>27,322,289</u>	
Surplus as regards policyholders	<u>38,722,289</u>	-	<u>38,722,289</u>	
<b>Total Liabilities, Surplus and other Funds</b>	<u>\$57,907,737</u>	<u>\$ -</u>	<u>\$57,907,737</u>	

**HEALTH PLAN OF CARE OREGON, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**For the Year Ended December 31, 2012**

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$ 106,262,762	\$ -	\$ 106,262,762	
Change in unearned premium reserves and reserves for rate credit	(695,479)	-	(695,479)	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	<u>105,567,283</u>	<u>-</u>	<u>105,567,283</u>	
Hospital and Medical				
Hospital/medical benefits	63,099,438	-	63,099,438	
Other professional services	6,395,100	-	6,395,100	
Outside referrals	7,265,618	-	7,265,618	
Emergency room and out-of-area	3,187,351	-	3,187,351	
Prescription drugs	9,187,953	-	9,187,953	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	3,000	-	3,000	
Subtotal	<u>89,138,460</u>	<u>-</u>	<u>89,138,460</u>	
Less:				
Net reinsurance recoveries	<u>129,592</u>	<u>-</u>	<u>129,592</u>	
Total medical and hospital	89,008,868	-	89,008,868	
Non-health claims	-	-	-	
Claim adjustment expenses	6,703,723	-	6,703,723	
General administrative expenses	5,503,363	-	5,503,363	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	<u>101,215,954</u>	<u>-</u>	<u>101,215,954</u>	
Net underwriting gain or (loss)	<u>4,351,329</u>	<u>-</u>	<u>4,351,329</u>	
Net investment income earned	1,572,455	-	1,572,455	
Net realized capital gains (losses)	<u>106,431</u>	<u>-</u>	<u>106,431</u>	
Net investment gains (losses)	<u>1,678,886</u>	<u>-</u>	<u>1,678,886</u>	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	-	-	-	
Net income before all other federal income taxes	6,030,215	-	6,030,215	
Federal income taxes incurred	<u>2,141,691</u>	<u>-</u>	<u>2,141,691</u>	
Net income	<u>\$ 3,888,524</u>	<u>\$ -</u>	<u>\$ 3,888,524</u>	

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

Surplus as regards policyholders, December 31, previous year	<u>\$34,595,088</u>	<u>\$28,621,022</u>	<u>\$27,019,383</u>
Net income	3,888,524	6,412,030	2,267,358
Change in net unrealized capital gains or (losses)	-	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	86,832	(68,107)	(361,018)
Change in non-admitted assets	151,845	(369,857)	(304,701)
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	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Distributions to parent (cash)	-	-	-
Change in treasury stock	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Net change in capital and surplus	<u>4,127,201</u>	<u>5,974,066</u>	<u>1,601,639</u>
Surplus as regards policyholders, December 31, current year	<u>\$38,722,289</u>	<u>\$34,595,088</u>	<u>\$28,621,022</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Invested Assets

Most of the Plan's long-term bond investments were in high quality US Treasury obligations, special revenue and industrial and miscellaneous bonds. The Plan reported direct exposure in mortgaged-backed or asset-backed securities in the amount of \$4,191,550, equal to 9.8% of total bonds and 7.5% of its total invested assets.

Short-term investments consisted of bonds purchased within one year of maturity and two short-term money market funds, one at Wells Fargo Bank and one at US Bank. Cash on deposit was held in accounts at Wells Fargo Bank.

A comparison of the invested assets over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short Term</u>	<u>Ratio A/</u> <u>Total Assets</u>	<u>Ratio B/</u> <u>Total Assets</u>
2008	\$29,749,309	\$ 8,739,868	72%	21%
2009	30,979,594	6,542,037	76%	16%
2010	35,808,229	3,408,128	86%	8%
2011	42,193,318	3,007,164	85%	6%
2012	42,820,086	13,165,993	74%	23%

The Board approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2012, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits. The Plan was, therefore, in compliance with ORS 733.580.

Effective February 10, 2006, the Plan entered into a custodial agreement with Wells Fargo Bank. The agreement contained all the relevant protections describe in OAR 836-027-0200-(4)(a) through (l).

It was noted as part of the analyst review that the Plan's investment in short-term securities did not comply with ORS 733.770. This statute prohibits an insurer from havng any combination of investments in or secured by the stocks, obligations, and property of one person, corporation, or political subdivision in excess of 10% of its assets. Subsequently, the Plan liquidated the portfolio and reinvested its assets to be in compliance with ORS 733.770. **I recommend the Plan comply with the requirements of ORS 733.770 and ensure that its management monitors the investment limitations on a regular basis.**

### Note 2 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by David Ball, FSA, MAAA, life and health actuary for the Oregon Insurance Division. As part of his review, he examined the Actuarial Report Supporting Statements as of

December 31, 2012, prepared by Mary K. Hegemann, FSA, MAAA, of Wakely Consulting Group, based in Englewood, Colorado.

Mr. Ball reviewed the reconciliation of the data used in the Plan's Actuarial Report to the data in the actuarial workpapers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the Annual Statement filing, as well as prepared his own independent calculations. He determined the following:

	<u>My Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 12,001,744	\$ 14,515,593
Accrued Medical Incentive Pool and Bonus Payments	7,000	7,000
Unpaid Claims Adjustment Expenses (CAE)	420,061	504,000
Aggregate Health Policy Reserves	866,655	866,655
Aggregate Health Claim Reserves	-	-
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	<u>\$ 13,295,460</u>	<u>\$ 15,893,248</u>

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of December 31, 2012 were reasonable. Mr. Ball's total estimate was less than the appointed actuary's estimate by \$2.6 million, a difference of 16.3%, indicating a reserve adequacy. He concurred that the reserves of the Plan were reasonably stated as of December 31, 2012.

### SUMMARY OF COMMENTS AND RECOMMENDATIONS

Page

- 19 I recommend the Plan comply with the requirements of ORS 733.770 and ensure its management monitors the investment limitations on a regular basis.

### CONCLUSION

During the period covered by this examination, the surplus of the Plan has increased from \$27,019,383, as presented in the December 31, 2009, report of examination, to \$38,722,289, as shown in this report. Comparative assets and liabilities are:

	<u>2012</u>	<b>December 31,</b>	<u>2009</u>	<u>Change</u>
Assets	\$57,907,737		\$40,664,938	\$17,242,799
Liabilities	<u>19,185,448</u>		<u>13,645,555</u>	<u>5,539,893</u>
Surplus	<u>\$38,722,289</u>		<u>\$27,019,383</u>	<u>\$11,702,906</u>

## ACKNOWLEDGMENT

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

In addition to the undersigned, lead examiner Joseph A. Rome, CFE, CIE, Raymond W. Anderson, CFE, Timothy R. Hurley, CFE, and Michael P. Phillips, CPA, CFE, AES, insurance examiners and David Ball, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,



---

Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

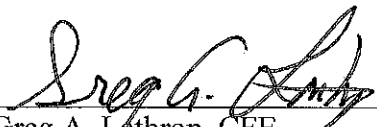
**AFFIDAVIT**

State of Oregon        )  
                                  ) ss  
Marion County        )


Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I am authorized to represent the state of Oregon in the examination of Health Plan of CareOregon, Inc.
2. The Insurance Division 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 Health Plan of CareOregon, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

  
\_\_\_\_\_  
Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this 23 day of December, 2013.

  
\_\_\_\_\_  
Notary Public in and for the State of Oregon

My Commission Expires: 3/22/2017

