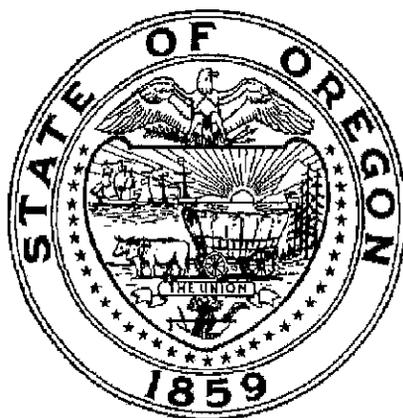


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
SALEM, OREGON**

AS OF

DECEMBER 31, 2011

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
SALEM, OREGON**

NAIC COMPANY CODE 12527

AS OF

DECEMBER 31, 2011

TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION	4
COMPANY HISTORY	4
<i>Capitalization</i>	<i>5</i>
CORPORATE RECORDS	5
<i>Board Minutes</i>	<i>5</i>
<i>Trust Agreement</i>	<i>6</i>
MANAGEMENT AND CONTROL	6
<i>Trustor</i>	<i>6</i>
<i>Trustees</i>	<i>6</i>
<i>Officers</i>	<i>8</i>
<i>Conflict Of Interest</i>	<i>8</i>
<i>Administrative Services Agreement</i>	<i>8</i>
FIDELITY BOND AND OTHER INSURANCE	9
TERRITORY AND PLAN OF OPERATION	9
GROWTH OF THE COMPANY	10
LOSS EXPERIENCE	11
REINSURANCE	11
<i>Assumed</i>	<i>11</i>
<i>Ceded</i>	<i>11</i>
ACCOUNTS AND RECORDS	12
<i>Amended Filings</i>	<i>12</i>
STATUTORY DEPOSITS	13
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	14
SUBSEQUENT EVENTS	14
FINANCIAL STATEMENTS	14
NOTES TO FINANCIAL STATEMENTS	19
<i>Note 1 – Invested Assets</i>	<i>19</i>
<i>Note 2 – Reinsurance Recoverable</i>	<i>19</i>
<i>Note 3 – Actuarial Reserves</i>	<i>20</i>
SUMMARY OF COMMENTS AND RECOMMENDATIONS	21
CONCLUSION	21
ACKNOWLEDGMENT	22
AFFIDAVIT	23

SALUTATION

March 20, 2013

Honorable Louis Savage, 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

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
2995 Ryan Drive SE,
Salem, Oregon 97301

NAIC Code 12527

hereinafter referred to as the "Trust." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Mid-Valley IPA Employee Benefit Trust conducted as a single state examination. The last examination of this multiple employer welfare arrangement was completed as of December 31, 2008. The current examination covers the period of January 1, 2009, to December 31, 2011.

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 Trust by obtaining information about the Trust, including corporate governance, identifying and assessing inherent risks within the Trust, 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 Trust were considered in accordance with the risk focused examination process.

COMPANY HISTORY

The Trust was formed on November 1, 2004, as an employees' beneficiary association under the provisions of Section 3(4) of the Employee Retirement Income Security Act of 1974 (ERISA). In 1993, the Oregon State Legislature enacted statutes regulating Multiple Employer Welfare Arrangements, or MEWAs. Subsequently, the Trust applied for, and received, its Certificate of Multiple Employer Welfare Arrangement on April 25, 2005, to

conduct business as a Trust Multiple Employer Welfare Arrangement in accordance with ORS 750.303(2) and (3).

Capitalization

The capitalization requirements of the Trust are defined by ORS 750.309(3) which requires the Trust to maintain capital and surplus of not less than \$250,000 or an amount equal to 35% of incurred claims for the preceding 12 month period, whichever is greater. However, the required amount shall not exceed \$500,000. As of December 31, 2011, the Trust was in compliance as this examination concluded the Trust possessed surplus of \$785,893. The Trust is funded with employer and employee contributions to the extent provided for in the Trust's health care contracts.

CORPORATE RECORDS

Board Minutes

In general, the review of the Trustees meeting minutes of the Trust indicated the minutes support the transactions of the Trust and clearly describe the actions taken by its trustees. A quorum, as defined by the Trust Agreement, met at all of the meetings held during the period under review.

The Trustees conduct monthly meetings to discuss medical management and reinsurance coverages, compare financial statements to budgets, and other matters relating to the Trust. A review of the trustee minutes revealed the minutes adequately supported the activities of the Trust in sufficient detail. A quorum, defined in the Trust Agreement as a majority of the Trustees, was present at all meetings.

Trust Agreement

The Trust does not have Articles of Incorporation or Bylaws. Instead, its Trust Agreement defines its purpose and sets forth the rights and responsibilities of its trustees, employers, employees, and beneficiaries with respect to the MEWA. No amendments were made to the Trust Agreement during the period under review.

MANAGEMENT AND CONTROL

Trustor

The Trust Agreement designated Mid-Valley Independent Physicians Association, Inc. (MVIPA), an Oregon non-profit taxable mutual benefit corporation, as the Trustor. MVIPA is an independent physician association currently comprised of 43 physician employers with 977 employees and 1,726 enrollees. The physician employers reside and practice in Marion and Polk Counties. In order to receive benefits from the Trust, one must be an employer member of MVIPA. The Trust has been representing physicians in the central Willamette Valley since 1991.

Trustees

The Board of Trustees, as identified in the Mid-Valley IPA Employee Benefit Trust Agreement (the Trust Agreement), is designated by the Sponsor as the administrator of the Trust. As long as the Board of Trustees serves as the administrator, the Board shall appoint an individual who shall serve at its pleasure as the "plan executive administrator" who shall have the authority to act on behalf of the Trustees as administrator and who shall receive communications from plan participants, beneficiaries, their representatives and others who have a need to contact the plan administrator. Per the Agreement, the Sponsor has the right to modify benefits provided to active employees and to terminate the Trust subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

If the Trust were to be terminated, the remaining net assets would be used for the continuance of benefits provided by the existing health care contracts.

The Trustee shall consist of a Board of Trustees appointed by those "employer members" of the Sponsor that are participants in the Trust. The number of members on the Board shall be at least five but no more than nine persons. The Board members shall be nominated and appointed by majority vote of the participating employers. In order to participate on the Board, an individual must be an officer, director and/or owner of a participating employer.

ORS 750.317 requires that at least 50% of the trustees to be persons who are covered under the multiple employer welfare arrangement. A trustee may not be an owner, officer or employee of a third party administrator who is licensed pursuant to ORS 744.700 to 744.740 and who provides services to a multiple employer welfare arrangement. The Trust is in compliance with this statute. Appointed trustees serving at December 31, 2011, were as follows:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Trustee Since</u>
Loring H. Winthrop, MD Salem, OR 97303	Physician Salem Clinic	2005
Bruce C. Johnson, MD Salem, OR 97302	Medical Surgeon Willamette Ear, Nose, Throat and Facial Plastic Surgery	2005
Michael D. Buck, MD Salem, OR 97301	Gastroenterologist	2005
James K. Lace, MD Salem, OR 97301	Pediatrician Childhood Health Associates of Salem	2005
Steven C. Tackett-Nelson, MD Salem, OR 97302	Psychiatrist Salem Psychiatric Associates	2005

Officers

Officers appointed by the trustees and serving at December 31, 2011, were as follows:

<u>Name</u>	<u>Title</u>
Jan L. Buffa	Plan Administrator
Dean G. Andretta	Fiscal Officer

Conflict Of Interest

The Trust has an established policy requiring disclosure of any material interest or affiliation on the part of its trustees, officers, and key personnel which may conflict with official duties. Each individual is required to read a Conflict of Interest Policy statement and prepare a Conflict of Interest Disclosure Statement. From a review of the completed conflict of interest questionnaires, the Trust's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Administrative Services Agreement

The Trust is party to an administrative services agreement with MVIPA. The terms of the agreement provide for MVIPA to be responsible for performing certain services with respect to the operations of the Trust and to provide physical space as is reasonably necessary for the Trust to perform its functions. These services include: claims processing; underwriting; record maintenance; premium collection; and all services necessary to comply with applicable laws and to properly administer the benefits provided by the Trust. In consideration of the services performed, the Trust remitted to MVIPA a per member per month administrative fee during 2011. This agreement was discontinued after December 31, 2011, and replaced with a HealthCare Service Agreement with Innovative Care Management, Inc., effective January 1, 2012.

During the period under examination, MVIPA was party to an administrative services agreement with Performance Health Technology, Inc., dba Performance Health Administrators (PHTech), a third party administrator licensed in Oregon (License #812382) to provide administration, payment and reviews for the claims submitted on behalf of the subscribers to the Trust, including the related records maintenance and reporting. For these services, MVIPA remitted to PHTech an administrative pmpm fee, in addition to ancillary fees and out of pocket expenses.

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 Trust's insurance coverages are provided through insurance policies insuring Mid Valley IPA, Inc., which included an amendment whereby the Trust is a named insured. The Trust is insured up to \$225,000 per individual loss, after a \$1,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2011, were found to be adequate, and included:

Commercial liability	Errors and omissions
Directors & officers liability	Umbrella liability
Business auto	Workers' compensation
Cyber liability	

TERRITORY AND PLAN OF OPERATION

The Trust provides medical health care, pharmaceutical, dental, and vision benefits to the Mid-Valley Independent Physician Association members' eligible employees and their dependents. The physician employers reside and practice in Marion and Polk counties. In

order to receive benefits from the Trust, an enrollee must be an employee of the employer members of MVIPA.

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

Line of Business	2011	2010	2009	2008	2007
Individual hospital & medical	0	0	0	0	0
Group hospital & medical	1,967	2,262	2,125	1,976	1,769
Medicare supplement	0	0	0	0	0
Vision only	0	0	0	0	0
Dental only	0	0	0	0	0
Other	0	0	0	0	0
Total enrollment	<u>1,967</u>	<u>2,262</u>	<u>2,125</u>	<u>1,976</u>	<u>1,769</u>

GROWTH OF THE COMPANY

Growth of the Trust over the past five years is reflected in the following table. Amounts were obtained from Trust's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2007	\$1,770,989	\$ 940,939	\$830,050	\$ (328,646)
2008*	1,852,445	1,060,239	792,206	(937,843)
2009	2,001,742	1,220,525	781,218	(510,988)
2010	2,123,494	1,841,318	282,176	(1,166,435)
2011*	2,778,742	1,992,849	785,893	183,676

*Per examination

The Trust was able to remain solvent in spite of losses through capital contributions each year, with the exception of 2011, as follows:

<u>Year</u>	<u>Paid in Capital Contributions</u>
2008	\$ 900,000
2009	\$ 500,000
2010	\$1,014,950

LOSS EXPERIENCE

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

<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>
2007	\$ 5,891,869	\$ 5,553,304	94.3%	\$731,255	106.7%
2008*	7,157,220	7,302,441	102.0%	826,985	113.6%
2009	8,366,072	8,048,881	96.2%	831,813	106.2%
2010	10,422,764	10,783,259	103.5%	809,238	111.2%
2011*	9,752,664	8,952,582	91.8%	619,580	98.1%

*Per examination

A combined hospital and medical and claims adjustment and general expense to premium income ratio of more than 100% would indicate an underwriting loss. The Trust reported an underwriting loss in four of the last five years. The Trust reported an underwriting gain of \$406,688 as of December 31, 2011.

REINSURANCE

Assumed

None.

Ceded

Zurich American Insurance Company (NAIC #16535, admitted into Oregon since November 5, 1998) reinsures the Trust through a stop-loss insurance policy. Under the Specific Stop Loss provision, Zurich will reimburse the Trust for a maximum of \$1,900,000 of any plan benefits which exceed the specific deductible of \$100,000 per year. Included under an Aggregate Stop Loss provision, Zurich will reimburse the Trust for the amount of any plan

benefits which exceed the annual aggregate deductible of \$350,000. The aggregate corridor must be exceeded before the reinsurer will pay any claims under the specific provision.

The reinsurance agreement does not include an insolvency clause per the provisions of ORS 731.508(3). An insolvency clause must be included in any reinsurance contract prior to the insurer taking credit for reinsurance. **I recommend the Trust nonadmit any reinsurance recoverable on any future reinsurance contract that lacks an insolvency clause, pursuant to ORS 731.508(3).**

The Trust reported a recoverable amount on reinsurance of \$27,515 in its 2011 Annual Statement. However, it failed to include Schedule S – Part 3, or any description of its reinsurance program in the Notes to Financial Statements. **I recommend the Trust prepare Schedule S – Part 3 to report all reinsurance activity, and I further recommend the Trust disclose information of its reinsurance program in the Notes to Financial Statements in accordance with the NAIC Annual Statement Instructions for Health manual and ORS 731.302.**

ACCOUNTS AND RECORDS

In general, the Trust's records and source documentation supported the amounts presented in the Trust's December 31, 2011, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. However, the following issues were noted during the examination:

Amended Filings

The Trust filed a number of amended statements during the period under examination, making it difficult in some cases to determine the true financial position of the insurer. According to the NAIC Annual Statement Instructions for Health manual, while there are

instances where the filing of an amended annual statement may be necessary, the restatement of prior years' results is generally prohibited. For example, the examiners noted one instance where the Trust amended its statement to change an immaterial estimate.

I recommend the Trust file amended statements only when directed by the financial analyst or when it meets the conditions noted in the Annual Statement Instructions for Health manual, pursuant to ORS 731.574.

STATUTORY DEPOSITS

The Trust has on deposit a US Treasury Note in the amount of \$55,000 with the Department of Consumer and Business Services, Insurance Division. The deposit was confirmed directly by US Bank and was properly disclosed on Schedule E – Part 3 in the 2011 Annual Statement. The deposit is part of two Treasuries in the amount of \$828,000, which are reported on Schedule DA.

Pursuant to ORS 750.309(4)(b), the amount of the deposit to be maintained by the Trust shall be the lesser of \$250,000 or an amount calculated by determining the average monthly amount of claims paid by the Trust during the preceding 12-month period and multiplying the average monthly amount by three. The amount of the deposit to be maintained based on this calculation must be no less than \$250,000.

I recommend the Trust increase the security deposit it maintains with the Department of Consumer and Business Services, Insurance Division to \$250,000.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were five recommendations made in the 2008 Report of Examination, however, no adjustments were made to surplus as a result of the examination findings. In a follow-up report prepared June 10, 2010, the Oregon Insurance Division concluded the Trust was in compliance with each of the recommendations.

SUBSEQUENT EVENTS

Effective January 1, 2013, the Trust terminated its agreement with PHTech and hired Cypress Benefit Administrators, a third party administrator, as the claims administrator for a set per member per month rate.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Mid-Valley IPA Employee Benefits Trust as of December 31, 2011:

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

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
ASSETS
As of December 31, 2011

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ -	\$ -	\$ -	
Cash, cash equivalents and short-term investments	2,732,660	-	2,732,660	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$2,732,660</u>	<u>\$ -</u>	<u>\$2,732,660</u>	
Investment income due and accrued	4,140	-	4,140	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	2,300	-	2,300	
Reinsurance recoverable	27,515	(27,515)	-	2
Health care receivable	39,642	-	39,642	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$2,806,257</u>	<u>\$(27,515)</u>	<u>\$2,778,742</u>	

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2011

Liabilities, Surplus and other Funds	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$1,189,333	\$ 226,186	\$1,415,519	3
Accrued medical incentive pool and bonus	497,397	-	497,397	3
Unpaid claim adjustment expenses	44,940	-	44,940	3
General expenses due or accrued	34,993	-	34,993	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$1,766,663</u>	<u>\$ 226,186</u>	<u>\$1,992,849</u>	
Common capital stock	\$ -	\$ -	\$ -	
Gross paid in and contributed surplus	4,203,266	-	4,203,266	
Unassigned funds (surplus)	<u>(3,163,672)</u>	<u>(253,701)</u>	<u>(3,417,373)</u>	
Surplus as regards policyholders	<u>1,039,594</u>	<u>(253,701)</u>	<u>785,893</u>	
Total Liabilities, Surplus and other Funds	<u>\$2,806,257</u>	<u>\$(253,701)</u>	<u>\$2,778,742</u>	

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2011

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$9,752,664	\$ -	\$9,752,664	
Change in unearned premium reserves and reserves for rate credit	-	-	-	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	<u>9,752,664</u>	<u>-</u>	<u>9,752,664</u>	
Hospital and Medical				
Hospital/medical benefits	6,348,261	226,186	6,574,447	
Other professional services	-	-	-	
Outside referrals	-	-	-	
Emergency room and out-of-area	-	-	-	
Prescription drugs	1,545,637	-	1,545,637	
Incentive pool, withhold adjustments and bonus amounts	<u>497,397</u>	<u>-</u>	<u>497,397</u>	
Subtotal	8,391,295	226,186	8,617,481	
Less:				
Net reinsurance recoveries	<u>(335,101)</u>	<u>-</u>	<u>(335,101)</u>	
Total medical and hospital	8,726,396	226,186	8,952,582	
Non-health claims	-	-	-	
Claim adjustment expenses	343,980	-	343,980	
General administrative expenses	275,600	-	275,600	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>9,345,976</u>	<u>226,186</u>	<u>9,572,162</u>	
Net underwriting gain or (loss)	<u>406,688</u>	<u>226,186</u>	<u>180,502</u>	
Net investment income earned	3,174	-	3,174	
Net realized capital gains (losses)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment gains (losses)	<u>3,174</u>	<u>-</u>	<u>3,174</u>	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	-	-	-	
Federal income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>	
Net income	<u>\$ 409,862</u>	<u>\$226,186</u>	<u>\$ 183,676</u>	

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2011	2010	2009
Surplus as regards policyholders, December 31, previous year	<u>\$282,176</u>	<u>\$781,218</u>	<u>\$792,206</u>
Net income	183,676	(1,166,435)	(510,988)
Change in net unrealized capital gains or (losses)	-	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	-	-	-
Change in nonadmitted assets	320,041	(347,556)	-
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	1,014,950	500,000
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to parent (cash)	-	-	-
Change in treasury stock	-	-	-
Examination adjustment	(253,701)	(1)	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>503,717</u>	<u>(499,042)</u>	<u>(10,988)</u>
Surplus as regards policyholders, December 31, current year	<u>\$785,893</u>	<u>\$282,176</u>	<u>\$781,218</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2011, the Trust held no long-term investments. Short-term deposits consisted of one US Treasury Bill held for the statutory deposit held through the Oregon Insurance Division in the custodial account at US Bank. Cash was held in two accounts with Key Bank.

A comparison of the major investments over the past five years shows the following:

<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>
2007	0	0	1,184,654	0.0%	0.0%	66.9%
2008*	0	0	1,045,805	0.0%	0.0%	56.4%
2009	0	0	1,519,394	0.0%	0.0%	75.9%
2010	0	0	1,425,847	0.0%	0.0%	67.1%
2011*	0	0	2,732,660	0.0%	0.0%	97.4%

A review of the Board of Trustees minutes indicated the Trustees were given reports of the investment transactions in each of the years under review, but failed to formally approve the transactions. **I recommend the Board of Trustees formally approve, by resolution and vote, the investment transactions of the Trust, pursuant to ORS 733.740.**

As of December 31, 2011, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Trust was in compliance with ORS 733.580.

Note 2 – Reinsurance Recoverable

As was noted in the reinsurance section above, the Trust reported a recoverable from Zurich American Insurance Company in the amount of \$27,515. In a review of the reinsurance contract between Zurich American and the Trust, the examiners determined it lacked a proper insolvency clause, an essential safeguard required by ORS 731.508(3). As a result, the entire balance was nonadmitted on a statutory basis. See the recommendation noted on page 12 of this report of examination.

Note 3 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Trust 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, 2011, prepared by Christopher S. Carlson, FSA, MAAA, of Oliver Wyman Actuarial Consulting, Inc.

Mr. Ball reviewed the reconciliation of the data used in the Trust's actuarial report to the data in the actuarial work papers 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	\$1,811,519	\$1,189,333
Accrued Medical Incentive Pool and Bonus Payments	497,397	497,397
Unpaid Claims Adjustment Expenses (CAE)	44,940	44,940
Asset – Recoverable from Reinsurers	(423,515)	(27,515)
Premium Deficiency Reserves	<u>-</u>	<u>-</u>
Total Actuarial Liabilities	<u>\$1,930,341</u>	<u>\$1,704,155</u>

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Trust as of December 31, 2011 were reasonable. Mr. Ball's total estimate exceeded these reserves by \$622,186, an increase of 52%, based on a review of the claims run-out through 2012. Further research revealed a large claim that incurred in December, 2011, and paid in June, 2012. Considering the stop-loss reinsurance would have mitigated this loss by approximately \$396,000, the underestimate of claim unpaid was reduced to \$226,186, or 19%. As a result, the examiners adjusted the claims unpaid reserve by this amount, and reduced surplus by a corresponding amount.

Mr. Ball concurred the remaining reserves of the Trust were reasonably stated as of December 31, 2011.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the recommendations made in this report of examination:

Page

- 12 I recommend the Trust nonadmit any reinsurance recoverable on any future reinsurance contract that lacks an insolvency clause, pursuant to ORS 731.508(3).
- 12 I recommend the Trust prepare Schedule S – Part 3 to report all reinsurance activity, and I further recommend the Trust disclose information of its reinsurance program in the Notes to Financial Statements in accordance with the NAIC Annual Statement Instructions for Health manual and ORS 731.302.
- 13 I recommend the Trust file amended statements only when directed by the financial analyst or when it meets the conditions noted in the Annual Statement Instructions for Health manual, pursuant to ORS 731.574.
- 13 I recommend the Trust increase the security deposit it maintains with the Department of Consumer and Business Services, Insurance Division to \$250,000.
- 19 I recommend the Board of Trustees formally approve, by resolution and vote, the investment transactions of the Trust, pursuant to ORS 733.740.

CONCLUSION

Adjustments were made to the Trust's total capital and surplus as a result of this examination, reducing surplus by \$(253,701). During the three year period covered by this examination, the surplus of the Trust has decreased from \$792,206, as presented in the December 31, 2008, report of examination, to \$785,893, as shown in this report. The comparative assets and liabilities are:

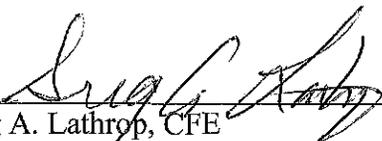
	<u>2011</u>	<u>December 31,</u> <u>2008</u>	<u>Change</u>
Assets	\$2,778,742	\$ 1,852,445	\$926,297
Liabilities	<u>1,992,849</u>	<u>1,060,239</u>	<u>932,610</u>
Surplus	<u>\$ 785,893</u>	<u>\$ 792,206</u>	<u>\$ (6,313)</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Raymond Anderson, CFE, and Mark Giffin, CFE, insurance examiners, and David Ball, FSA, MAAA, Life & Health Actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated on this examination.

Respectfully submitted,



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

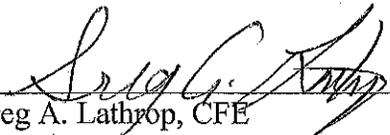
AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

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

1. I have authority to represent the state of Oregon in the examination of Mid-Valley IPA Employee Benefit Trust, Salem, Oregon.
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 Mid-Valley IPA Employee Benefits Trust 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
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 17 day of May, 2013.



Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

