

STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE BLUECROSS BLUESHIELD OF OREGON
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2017

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

REGENCE BLUECROSS BLUESHIELD OF OREGON

PORTLAND, OREGON

NAIC COMPANY CODE 54933

AS OF

DECEMBER 31, 2017

TABLE OF CONTENTS

SALUTATION	4
SCOPE OF EXAMINATION	5
COMPANY HISTORY	6
<i>Dividends and Other Distributions</i>	<i>7</i>
CORPORATE RECORDS	7
<i>Board Minutes</i>	<i>7</i>
<i>Articles of Incorporation</i>	<i>8</i>
<i>Bylaws</i>	<i>8</i>
MANAGEMENT AND CONTROL	8
<i>Board of Directors</i>	<i>8</i>
<i>Officers</i>	<i>9</i>
<i>Insurance Company Holding System</i>	<i>10</i>
INTERCOMPANY AGREEMENTS.....	13
FIDELITY BOND AND OTHER INSURANCE.....	16
TERRITORY AND PLAN OF OPERATION	17
GROWTH OF THE COMPANY.....	18
LOSS EXPERIENCE	18
REINSURANCE	19
ACCOUNTS AND RECORDS.....	21
STATUTORY DEPOSIT	21
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS.....	21
SUBSEQUENT EVENTS.....	21
FINANCIAL STATEMENTS.....	22
ASSETS	23
LIABILITIES, CAPITAL AND SURPLUS.....	24
STATEMENT OF REVENUE AND EXPENSES.....	25
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION	26
NOTES TO FINANCIAL STATEMENTS	27
<i>Note 1 – Invested Assets</i>	<i>27</i>
<i>Note 2 – Real Estate</i>	<i>27</i>
<i>Note 3 – Other Invested Assets</i>	<i>28</i>
<i>Note 4 – Actuarial Reserves</i>	<i>28</i>
SUMMARY OF COMMENTS AND RECOMMENDATIONS	29
CONCLUSION	29
ACKNOWLEDGMENT	30
AFFIDAVIT	31

SALUTATION

February 19, 2019

Honorable Cameron Smith, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

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

**REGENCE BLUECROSS BLUESHIELD OF OREGON
100 SW Market Street
Portland, Oregon 97204**

NAIC Company Code 54933

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

SCOPE OF EXAMINATION

We have performed our regular, triennial, multi-state examination of Regence BlueCross BlueShield of Oregon, conducted with the insurance regulators from the States of Idaho, Utah and Washington, for the coordinated examination of insurers under Cambia Health Solutions, Inc. (“Cambia”). Oregon was designated as the lead state. The examination was conducted in conjunction with the examination of eight affiliated health care service contractors and two life and health insurers. A separate report of examination will be prepared for each entity. The last examination of this health care service contractor was completed as of December 31, 2014. This examination covers the period of January 1, 2015 to December 31, 2017.

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, assess corporate governance, identify current and prospective risks of the Plan and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Plan were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Plan's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Plan.

COMPANY HISTORY

Northwest Hospital Service (dba Blue Cross of Oregon) was incorporated under the laws of the State of Oregon October 7, 1941, and commenced business in June 1942. Oregon Physicians' Service (dba Blue Shield) was incorporated under the laws of the State of Oregon on December 6, 1941, and commenced business in June 1942. Both functioned independently as health care service contractors under individual Certificates of Authority until March 1983 when Oregon Physicians' Service merged with and into Northwest Hospital Service, the surviving corporation, and soon after, the entity changed its name to Blue Cross and Blue Shield of Oregon (BCBSO). Effective August 1, 1997, BCBSO changed its name to Regence BlueCross BlueShield of Oregon (RBCBSO).

On April 17, 1995, a public benefit corporation was formed under the name ENTRUST, which changed its name to The Benchmark Group on June 27, 1995. It was formed as a holding company to perform administrative services for its subsidiaries. On June 1, 1995, four entities, BCBSO (State of Oregon), King County Medical Blue Shield (State of Washington), Pierce County Medical Bureau, Inc. (State of Washington), and Medical Service Bureau of Idaho, Inc., entered into an Agreement of Affiliation with The Benchmark Group. On March 28, 1997, The Benchmark Group changed its name to The Regence Group (TRG). Effective August 1, 1997,

Regence BlueCross BlueShield of Utah became an Affiliate of TRG. On November 4, 2011, TRG received approval to use the name Cambia Health Solutions, Inc. (Cambia).

Dividends and Other Distributions

During the period under examination, the Plan declared and paid cash distributions to its sole member as follows:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
12/15/2017	12/15/2017	\$ 30,000,000	Ordinary
12/21/2016	12/21/2016	15,000,000	Ordinary
12/18/2015	12/18/2015	10,000,000	Ordinary

The Plan made the proper disclosure of the distributions to the director of the Department of Consumer and Business Services (DCBS) in accordance with the reporting requirements established by ORS 732.554 and 732.576. Since it began making distributions to its sole corporate member in 2010, the Plan has distributed a total of \$253,000,000 in cash distributions.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Plan indicated the minutes support the transactions of the Plan and clearly describe the actions taken by its directors. A quorum, as defined by the Plan's Bylaws, met at all of the meetings held during the period under review.

Neither the Plan's Articles nor its Bylaws authorize any standing committee, but the Board may appoint special committees for specific purposes and for a limited duration. Instead, the Plan relies on appointed committees of the ultimate parent, Cambia. There are six committees authorized to assist in the management of Cambia, as follows:

- Organizational and Governance Committee
- Investment Committee
- Audit and Compliance Committee
- Personnel and Compensation Committee
- Health Strategies Committee
- Consumer Enablement Committee

A review of the Board minutes indicated the compensation of Cambia's CEO is approved through the Personnel and Compensation Committee, which is then approved by the Board. Compensation of other senior officers, including the Plan's senior officers, is indirectly approved through the Board's approval of an annual budget. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

On June 26, 2012, the Plan restated its Articles to include Regence Insurance Holding Corporation as the sole member. No other changes were made during the period under examination. The Articles of incorporation conformed to the Oregon Insurance Code.

Bylaws

The Bylaws were most recently restated on December 1, 2017. The restated Bylaws changed the membership criteria of the Community Board from not fewer than ten community board members to not fewer than five community board members. The maximum number of Community board members remained at fifteen. The Plan's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article II - Section 1, state the business affairs of the corporation shall be managed by its Board of Directors. Article II - Section 3 states the number of directors constituting the

Board of Directors shall not be less than five (5) nor more than seven (7). The Plan was governed by a five member Board of Directors at December 31, 2017, as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Angela M. Dowling West Linn, Oregon	President Regence BlueCross BlueShield of Oregon	2013
Peggy Y. Fowler Portland, Oregon	Retired Former President & CEO Portland General Electric	2005
Mark B. Ganz Portland, Oregon	President and CEO Cambia Health Solutions	2005
Luis F. Machuca Hillsboro, Oregon	CEO Enli Health Intelligence	2008
John W. Morgan Wilsonville, Oregon	CEO Avamere Health Services	2012

The composition of the Plan's Board of Directors complied with ORS 732.305.

Officers

Principal officers serving the Plan at December 31, 2017, were:

<u>Officer</u>	<u>Office</u>
Angela M. Dowling	President
John W. Attey	Secretary
Andreas B. Ellis	Treasurer
Lisa T. Murphy	Assistant Secretary

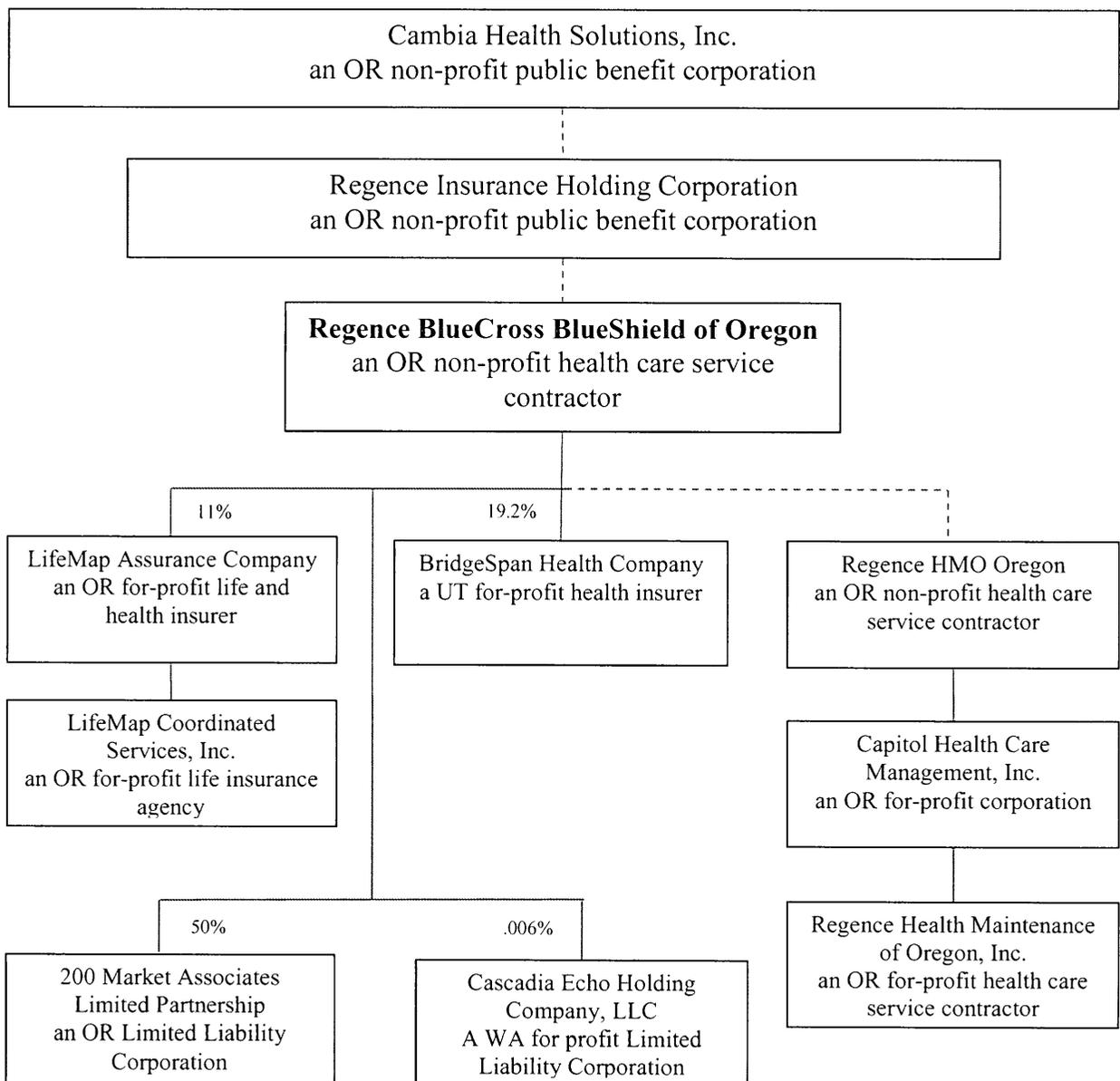
Conflict Of Interest

The Plan's Board adopted a formal statement of policy concerning conflict of interest for all directors, officers and responsible employees. Board members, senior officers and key employees are required to 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 Plan is part of an insurance company holding system whereby Cambia Health Solutions is the ultimate controlling entity. The following abridged organization chart shows the relationships in the Oregon region (ownership is 100% unless otherwise noted, dotted line indicates sole member):



Cambia owns or is the sole member of four non-insurance companies, as follows:

Regence Insurance Holding Corporation is an Oregon non-profit public benefit corporation established by Cambia on November 21, 2011. It operates as a holding company and is the sole corporate member for Regence BlueShield (RBS), Regence BlueCross BlueShield of Oregon (RBCBSO) and Regence BlueCross BlueShield of Utah (RBCBSU).

OmedaRx, Inc. (formerly Regence Rx, Inc.), is an Oregon for-profit taxable corporation that operates as a pharmaceutical benefits management program contracting with pharmacies, processing prescription claims, reviewing medication formularies, and providing educational tools for members and doctors. On March 19, 2012, OmedaRx entered into a new PBM administration arrangement effective May 1, 2012 with Catalyst Rx, an unrelated third party that was subsequently purchased by SXC Health Solutions Corp. on April 17, 2012. Catalyst and SXC merged into one company with a new name and brand, Catamaran Rx. On March 30, 2015, UnitedHealth Group Inc. agreed to buy Catamaran Rx for \$12.8 billion, merging Catamaran Rx with its drug-benefit unit called OptumRx.

Direct Health Solutions Corporation is an Oregon corporation incorporated on April 4, 2012, to act as a holding company for various insurance related businesses. It owns three direct subsidiaries, as follows:

Hubbub Health, Inc. is an organization that hosts a social media site to provide an interactive wellness program. It provides an online monthly subscription service to customers (primarily business groups), which issue health and wellness

challenges to its employees via the Hubbub platform. Additional features include health coaching, consulting, mobile access, and fitness device integration.

MedSavvy, Inc. is a website that provides information about the effectiveness and cost of prescription medications for patients, caregivers and doctors. It assigns evidence-based letter grades to medications, making them easier to compare. Grades are based on objective criteria developed from best practices in evidence-based medicine, and assigned by a team of pharmacists who have specialized training in clinical evidence review and evaluation.

HealthSparq, Inc. was incorporated in Oregon on August 9, 2013, and is an online marketplace for employers and health providers. It is an integrated solution that transforms health by turning health care data into consumer information.

Cambia Health Foundation (formerly The Regence Foundation), is an Oregon tax-exempt, private foundation established by Cambia on June 11, 2007 as a 501(c)(3) corporation. It was formed to provide eleemosynary contributions in Idaho, Oregon, Utah and Washington, which benefits three core areas: 1) building healthier communities, 2) transforming health care, and 3) end-of-life issues. Its primary mission is to increase access to medical care for those who cannot afford it, while delivering and coordinating care with innovative methods that improve outcomes and address disparities in care.

Additional indirect subsidiaries of Cambia include:

Cascadia Echo Holding Company is a Delaware for-profit investment management company formed in 2016 by Cambia Health Solutions. It is mainly funded through RBS,

which has a 99.186% ownership interest. The holding company is used to invest in non-insurance related entities which provide various services focusing on the consumer such as IT services; programs/applications, pharmacy benefit management services, network management, and health and wellness services.

LifeMap Coordinated Services, Inc., an Oregon for-profit corporation that is a life insurance agency. This company is 100% owned by LifeMap Assurance Company.

Capitol Health Care Management, Inc., an Oregon for-profit corporation that serves as a downstream holding company to own all stock of HMO subsidiaries. This Plan owns 100% of the outstanding capital stock.

200 Market Associates Limited Partnership, is an Oregon limited partnership formed on April 5, 1990 to hold and manage a commercial office building and park in Portland, Oregon. Market Building, LLC is the general partner, RBCBSO is a Class B limited partner (50% ownership interest) and John W. Russell is a Class C limiter partner. The partnership own and operates the 200 SW Market Street commercial office building.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Plan and its affiliates or subsidiaries within the insurance company holding system:

Plan and Agreement of Affiliation

Effective May 1, 1995, and amended July 28, 1997, the Plans from Idaho, Oregon, Utah and Washington agreed to form a non-profit holding corporation (now known as Cambia Health Solutions) to become the sole corporate member of Regence BlueCross BlueShield of Oregon

(RBCBSO), Regence BlueCross BlueShield of Utah (RBCBSU) and Regence Blue Shield (RBS). A fourth plan, Regence Blue Shield of Idaho, Inc. (RBSI), is a mutual insurer and became affiliated through a separate agreement. The four plans also agreed to create a business plan to consolidate certain operations and functions to achieve desired economies.

Administrative Service Agreement

This agreement became effective December 28, 2007, between Cambia and all of its subsidiaries including the Plan. Cambia shall provide all operational, administrative and management services reasonably necessary to transact business, including managerial, legal, financial, actuarial, underwriting, accounting, human resources, employee benefits administration, data network/telecommunications, marketing, advertising, community affairs, public relations, communications, billing, banking, membership, claims adjudication, customer service, reporting, regulatory compliance, mail, and information technology services. In addition, Cambia shall provide all equipment, materials, office space, and general supplies. The Plan shall pay Cambia its proportionate share of the cost as well as its proportional share of general overhead expenses, according to a system-wide cost allocation methodology and in accordance with generally accepted cost accounting principles. It is intended that Cambia shall receive complete reimbursement for its costs and derive no profit from such reimbursement. All direct and indirect expenses incurred will be reconciled monthly and balances settled within 90 days from the end of the reporting month.

Federal Employee Program (FEP) Shared Systems and Cost Agreement

Effective January 1, 2012, Cambia and Group Hospitalization and Medical Services, Inc. d/b/a CareFirst BlueCross BlueShield ("CareFirst") entered into a service agreement for Cambia's

affiliates to use the CareFirst FEP Bridge System for pre and post claim adjudication processing and management of FEP healthcare claims interfacing with the FEP Operations Center adjudication system. Charges incurred by Cambia for the use of the CareFirst system are allocated among Cambia affiliates based on FEP claim volumes.

Insolvency Agreements

The Plan entered into an agreement on August 1, 1991, with its downstream subsidiary, Regence Health Maintenance of Oregon, Inc. On June 1, 1995, a separate agreement was entered into between the Plan and its direct subsidiary, Regence HMO Oregon. Both agreements require the Plan to make certain payments for covered services and to protect members from incurring liability in the event of the insolvency of the subsidiaries. A third agreement dated December 2012, replaced a missing contract between the Plan and LifeMap Assurance Company to guarantee all contractual and financial obligations to its customers in the event of the insolvency of LifeMap.

Guaranty Agreement

This Agreement was entered into on November 14, 2005, whereby the Plan agreed to guarantee the loan on its headquarters building in Portland, Oregon, which included liability for the full and timely payment of a \$61 million promissory note of its downstream subsidiary, 200 Market Limited Partnership. It was removed effective September 22, 2015 as Cambia is no longer a guarantor of the Limited Partnership.

Lease Agreement

The Plan entered into a 10-year lease agreement with 200 Market Associates LP commencing January 1, 2015, to rent office space in its headquarters building together with parking equal to one space per 800 rentable square feet.

Consolidated Federal Income Tax Agreement

Effective January 1, 1997 (although the agreement was not signed until September 20, 2000), Cambia agrees to file a consolidated federal income tax return, including any liability for any alternative minimum tax. The tax liability is then allocated to each member of the affiliated group, computed as if a separate return was filed. Any credits or operating losses shall be allocated to those members with the credits or generating the losses. Payment of estimated installments due for such taxable periods shall be paid within 30 days of receiving notice. Final settlements for a tax year must be paid within 30 days after the filing of the consolidated return.

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 Plan's insurance coverages are provided through insurance policies from unaffiliated carriers, and coverage protected the Plan and all subsidiary and affiliated companies as a named insured. The group as a whole is insured up to \$10,000,000 per occurrence, after a \$200,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity coverage was found to meet the coverage level recommended by the NAIC *Financial Condition Examiners Handbook*.

Other insurance coverages in force at December 31, 2017, were found to be adequate, and are as follows:

- Property liability
- Cyber liability
- Travel Accident, Accidental Death and Dismemberment
- International liability
- Excess liability
- Fiduciary liability
- Employment practices liability

General liability, auto, employee benefits
 Director's and officer's liability
 Managed care errors & omissions liability
 Workers' compensation
 Umbrella liability
 Fitness Center – General liability
 Fitness Center – Excess liability

TERRITORY AND PLAN OF OPERATION

During the period under examination, the Plan offered a full line of health insurance products for large and small employer groups, individuals and government employee programs. The Plan also offered a range of supplemental products such as dental, vision and prescription drug coverage. The Plan covers all of Oregon and parts of southern Washington.

The Plan also participates in the Federal Employee Program (FEP) and the BlueCard Program. In addition, the Plan offers a broad range of health benefit services for self-funded plans including claims processing, stop-loss insurance, actuarial and reporting services, medical cost management and other administrative services. The Plan reported total enrolled members over the past five years as follows:

Line of Business	2017	2016	2015	2014	2013
Individual hospital & medical	20,775	18,749	26,267	30,250	50,537
Group hospital & medical	145,439	130,313	131,145	148,909	160,181
Medicare supplement	8,174	8,282	8,359	8,549	8,473
Vision only	55,662	56,275	54,928	64,776	68,173
Dental only	40,461	36,491	34,685	41,845	41,105
FEHBP	61,545	61,622	60,280	59,753	59,423
Medicare	56,212	56,700	66,346	62,909	61,102
Medicaid	0	0	0	0	0
Other	<u>132,394</u>	<u>114,342</u>	<u>104,257</u>	<u>55,043</u>	<u>48,897</u>
Total enrollment	<u>520,662</u>	<u>482,774</u>	<u>486,267</u>	<u>472,034</u>	<u>497,891</u>

During 2017, the Plan reported direct business, as follows:

<u>State</u>	<u>Direct Premiums Written</u>
Oregon	\$ 1,672,203,283
Washington	<u>232,392,685</u>
Total	<u>\$ 1,904,595,968</u>

GROWTH OF THE COMPANY

Growth of the Plan over the past five years is reflected in the following schedule. Amounts were derived from Plan's filed annual statements, except in those years where a report of examination was published by the Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2013	\$ 1,008,235,016	\$ 380,925,209	\$ 627,309,807	\$ 17,974,524
2014*	1,039,743,203	404,483,581	635,259,622	35,876,103
2015	1,045,760,007	406,518,680	639,241,327	25,831,413
2016	1,092,931,048	431,961,075	660,969,969	30,214,856
2017*	1,194,792,198	463,911,775	730,880,423	78,766,132

*Per examination

LOSS EXPERIENCE

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

<u>Year</u>	(1) <u>Total Revenues</u>	(2) <u>Total Hospital and Medical</u>	(2)/(1) <u>Medical Loss Ratio</u>	(3) <u>Claim Adjustment and General Expenses</u>	(2)+(3)/(1) <u>Combined Loss Ratio</u>
2013	\$ 1,891,155,543	\$ 1,634,003,941	86.4%	\$ 264,807,507	100.4%
2014*	1,871,432,064	1,618,077,167	86.5%	286,270,280	101.8%
2015	1,877,604,843	1,590,320,643	84.7%	289,937,763	100.1%
2016	1,780,829,618	1,496,458,787	84.0%	255,475,814	98.4%
2017*	1,913,431,308	1,602,445,048	83.7%	227,824,725	95.7%

*Per examination

A combined loss incurred and expense to premium ratio of more than 100% would indicate an underwriting loss. The Plan reported underwriting losses in 2013, 2014, and 2015 and underwriting gains in 2016 and 2017.

REINSURANCE

Assumed

Effective January 1, 1993, the Plan assumed 100% of aggregate and specific Washington stop loss policies from LifeMap Assurance Company. The agreement did not contain an entire agreement clause as required by OAR 836-012-0320.

I recommend the plan amend the assumed reinsurance agreement with LifeMap to include an entire agreement clause pursuant to the provisions of OAR 836-012-0320.

The Plan assumes business from two affiliates. First, effective June 1, 1996, the Plan entered into a quota share reinsurance agreement with LifeMap to assume 100% of the liability under all issued group and individual health policies. Second, effective January 1, 2006, the Plan entered into a reinsurance agreement with Asuris Northwest Health (Asuris) to assume 100% of the liability incurred under Asuris Medicare Script insurance policies issued by Asuris to individuals in Oregon on or after the effective date. Neither agreement contained a settlement clause or a clause indicating that this represented the entire agreement between the reinsurer and the reinsured as required by OAR 836-012-0310 and OAR 836-012-0320, respectively.

I recommend the Plan amend its assumed reinsurance agreements with LifeMap and Asuris to include both a settlement clause pursuant to the provisions of OAR 836-012-0310 and an entire agreement clause pursuant to the provisions of OAR 836-012-0320.

Effective January 1, 2000 the Plan and LifeMap entered into an Individual Short-term Major Medical Excess Medical Agreement whereby the Plan agrees to indemnify LifeMap 100% of the excess liability resulting from LifeMap's covered claims under its individual short term medical policy for sickness or injury incurred on or after the effective date for individual claims in excess of \$100,000 with a lifetime maximum of \$1 million for any one person.

Ceded

Effective July 1, 2014, the Plan ceded 100% of its accidental death benefits included in certain individual and group medical policies to LifeMap. Effective May 1, 2000, the Plan ceded 100% of its long-term care benefit policies to MedAmerica Insurance Company (NAIC #69515). The agreement did not contain a settlement clause as required by OAR 836-012-0310.

I recommend the plan amend the ceded reinsurance agreement with MedAmerica Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310.

Effective January 1, 2014, the Plan ceded 100% of the liability for eligible high risk patient claims to the Oregon Health Authority. Effective January 5, 2015 the Cambia Health Solutions entered into an Excess of Loss contract with HM Life Insurance Company that reinsures them against high commercial, retrospective, federal exchange and stop loss claims in excess of \$2 million for its fully insured members. The agreement included the Plan but did not contain a proper settlement clause pursuant to OAR 836-012-0310.

I recommend the Plan amend the ceded reinsurance agreement with HM Life Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310.

Each of the reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. In view of the Plan's reported surplus at December 31, 2017, it does not maintain risk on any one subject in excess of ten percent of its surplus, in compliance with ORS 731.504

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2017, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSIT

As of the examination date, the Plan maintained a \$260,000 (par value) US Treasury bond on deposit at the Division of Financial Regulation, which meets the requirements of ORS 750.045(2). The deposit was verified from the records of the Division of Financial Regulation. In addition, the Plan reported \$1,125,000 (par value) in a US Treasury note as a deposit held for the Washington Office of the Insurance Commissioner for the benefit of all policyholders. Both deposits were properly listed in the 2017 annual statement on Schedule E-Part3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no adjustments made to surplus and no recommendations were made in the 2014 report of examination.

SUBSEQUENT EVENTS

Citing market uncertainty, the Plan and its affiliate, Bridgespan Health Company, pulled out of the individual health care market in 15 counties in Oregon effective January 1, 2018. The reduction

affected 18,450 customers, approximately two-thirds of the total number of individuals insured by both carriers in Oregon.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Division of Financial Regulation and present the financial condition of the Plan for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

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

REGENCE BLUECROSS BLUESHIELD OF OREGON
ASSETS
As of December 31, 2017

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 725,303,369	\$ -	\$ 725,303,369	1
Common stocks	287,423,499	-	287,423,499	1
Properties occupied by the company	8,543,636	-	8,543,636	2
Cash, cash equivalents and short-term investments	(57,619,271)	-	(57,619,271)	1
Other invested assets	1,097,871	-	1,097,871	3
Receivable for securities	290,166	-	290,166	
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>965,039,270</u>	<u>\$ -</u>	<u>965,039,270</u>	
Investment income due and accrued	4,717,674	-	4,717,674	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	120,888,506	-	120,888,506	
Accrued retrospective premiums and contracts subject to redetermination	15,137,999	-	15,137,999	
Reinsurance				
Funds held by or deposited with reinsured companies	1,455,335	-	1,455,335	
Amounts receivable relating to uninsured plans	59,340,238	-	59,340,238	
Receivable from parent, affiliates and subsidiaries	14,605,893	-	14,605,893	
Health care and other amounts receivable	9,710,408	-	9,710,408	
Aggregate write-ins for other than invested assets	<u>3,896,875</u>	<u>-</u>	<u>3,896,875</u>	
Total Assets	<u>\$ 1,194,792,198</u>	<u>\$ -</u>	<u>\$ 1,194,792,198</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2017

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$ 169,934,676	\$ -	\$ 169,934,676	4
Accrued medical incentive pool and bonus amounts	10,548,030	-	10,548,030	4
Unpaid claim adjustment expenses	7,511,446	-	7,511,446	4
Aggregate health policy reserves	92,738,586	-	92,738,586	4
Premiums received in advance	18,166,555	-	18,166,555	
General expenses due or accrued	22,077,392	-	22,077,392	
Current Federal and foreign income tax payable	26,358,434	-	26,358,434	
Net deferred tax liability	11,513,968	-	11,513,968	
Ceded reinsurance premium payable	215,240	-	215,240	
Amounts withheld or retained for the account of others	9,819,142	-	9,819,142	
Remittances and items not allocated	6,679,346	-	6,679,346	
Payable to parent, subsidiaries and affiliates	30,624,227	-	30,624,227	
Payable for securities	2,565,924	-	2,565,924	
Liability for amounts held under uninsured plans	53,127,783	-	53,127,783	
Aggregate write-ins for liabilities	<u>2,031,026</u>	-	<u>2,031,026</u>	4
Total Liabilities	<u>\$ 463,911,775</u>	<u>\$ -</u>	<u>\$ 463,911,775</u>	
Aggregate write-ins for special surplus funds	\$ 58,436,184	\$ -	\$ 58,436,184	
Unassigned funds (surplus)	<u>672,444,239</u>	-	<u>672,444,239</u>	
Surplus as regards policyholders	<u>\$ 730,880,423</u>	-	<u>\$ 730,880,423</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 1,194,792,198</u>	<u>\$ -</u>	<u>\$ 1,194,792,198</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2017

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Revenue				
Net premium income	\$ 1,928,013,236	\$ -	\$ 1,928,013,236	
Change in unearned premium reserves and reserves for rate credit	(14,581,928)	-	(14,581,928)	
Aggregate write-ins for health care related revenues	<u>-</u>	<u>-</u>	<u>-</u>	
Total revenue	1,913,431,308	-	1,913,431,308	
Hospital and Medical:				
Hospital/medical benefits	950,420,092	-	950,420,092	
Other professional services	127,317,301	-	127,317,301	
Outside referrals	47,736,750	-	47,736,750	
Emergency room and out-of-area	240,006,987	-	240,006,987	
Prescription drugs	216,440,570	-	216,440,570	
Incentive pool, withhold adjustments and bonus amounts	<u>8,672,022</u>	<u>-</u>	<u>8,672,022</u>	
Subtotal	1,590,593,722	-	1,590,593,722	
Less:				
Net reinsurance recoveries	<u>(11,851,326)</u>	<u>-</u>	<u>(11,851,326)</u>	
Total medical and hospital	1,602,445,048	-	1,602,445,048	
Non-health claims	-	-	-	
Claim adjustment expenses	112,104,601	-	112,104,601	
General administrative expenses	115,720,124	-	115,720,124	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	1,830,269,773	-	1,830,269,773	
Net underwriting gain or (loss)	<u>83,161,535</u>	<u>-</u>	<u>83,161,535</u>	
Net investment income earned	23,561,872	-	23,561,872	
Net realized capital gains (losses)	<u>10,810,121</u>	<u>-</u>	<u>10,810,121</u>	
Net investment gains (losses)	34,371,993	-	34,371,993	
Net gain or (loss) from agents' or premium balances charged off	(115,749)	-	(115,749)	
Aggregate write-ins for other income or expense	(4,703,364)	-	(4,703,364)	
Federal income taxes incurred	<u>33,948,283</u>	<u>-</u>	<u>33,948,283</u>	
Net income	<u>\$ 78,766,132</u>	<u>\$ -</u>	<u>\$ 78,766,132</u>	

REGENCE BLUECROSS BLUESHIELD OF OREGON
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2017	2016	2015
Surplus as regards policyholders, December 31, previous year	<u>\$ 660,969,969</u>	<u>\$ 639,241,327</u>	<u>\$ 635,259,622</u>
Net income (loss)	78,766,132	30,214,856	25,831,413
Change in net unrealized capital gains or (losses)	28,192,647	7,487,543	(16,575,268)
Change in net unrealized foreign exchange capital gain or (loss)	2,718	2,023,179	165,297
Change in net deferred income tax	(6,609,906)	(205,242)	(5,357,515)
Change in non-admitted assets	(441,137)	(2,791,694)	9,917,778
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)	(30,000,000)	(15,000,000)	(10,000,000)
Change in treasury stock	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>-</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>69,910,454</u>	<u>21,728,642</u>	<u>3,981,705</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 730,880,423</u>	<u>\$ 660,969,969</u>	<u>\$ 639,241,327</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2017, the Plan's long-term bond investments were diversified in US obligations, US federal agency bonds, municipal obligations, corporate issues, and foreign bonds. The Plan did have a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2017, and the carrying book value comprised 26.2% of the total long-term bond portfolio, or 19.7% of all invested assets.

Short-term deposits consisted of one US Treasury bill and two bonds purchased within one year of maturity. Common stocks included US and foreign corporations, the equity in two subsidiaries based on the Plan's 11% ownership interest in LifeMap and 19.2% ownership interest in BridgeSpan, and an international stock index fund.

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>
2013	485,943,720	199,316,387	59,965,344	48.2%	19.8%	5.9%
2014*	510,551,930	245,287,369	70,430,106	49.1%	23.6%	6.8%
2015	566,788,083	267,780,071	(9,765,205)	54.2%	25.6%	(0.9)%
2016	592,562,924	257,018,591	3,596,899	54.2%	23.5%	0.3%
2017*	725,303,369	287,423,499	(57,619,271)	60.7%	24.0%	(4.6)%

* Balance per examination

The Investment Committee approved the investment transactions in each of the years under review, and the actions of the committee were approved by the Board of Directors, pursuant to ORS 733.740. As of December 31, 2017, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Plan was in compliance with ORS 733.580.

Effective December 17, 2009, the Plan entered into a custodial agreement with BNY Mellon. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (1).

Note 2 – Real Estate

The Plan reported properties on Schedule A - Part 1 of the 2017 annual statement for the Plan's office building in Medford, Oregon. The total book value was reported at \$8,543,636 and

consisted of the land and depreciated cost of the building, adjusting for renovations or other capital expenditures. There were no encumbrances on the property.

Note 3 – Other Invested Assets

During the period under examination, the Plan reported four assets in Schedule BA; 1) an investment in BlueCross BlueShield Venture Partners III, LLC in Chicago, IL, 2) a limited partnership interest in the Portland headquarters building known as 200 Market Associates LP, 3) an investment in a subsidiary, Cascadia Echo Holding Company LLC, and 4) an investment a subsidiary, Regence HMO Oregon.

Note 4 – Actuarial Reserves

A review of the actuarial liabilities, including unpaid claims and claim adjustment expense reserves for the Plan was performed by Michael Presley, FSA, MAAA and Senior Consulting Actuary of Risk & Regulatory Consulting (RRC) and by John Humphries, ASA, MAAA, Partner of RRC. As part of their review, they examined the Actuarial Report Supporting Statements as of December 31, 2017 prepared by Steven J. Gaspar, FSA, MAAA, Senior VP and Chief Actuary of Cambia Health Solutions. External audit actuarial work-papers were also included in their review. Further, he reviewed the Plan’s controls related to identified actuarial risks.

The examination actuaries reviewed the reconciliation of the data used in the Plan's Actuarial Report to the data in the actuarial work papers and found them to be consistent. They relied on work performed by the examination team who reviewed the underlying claims data used to create the Annual Statement filing, as well as prepared their own independent calculations. They determined the following:

	<u>RRC Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 169,934,676	\$ 169,934,676
Accrued Medical Incentive Pool and Bonus Payments	10,548,030	10,548,030
Unpaid Claims Adjustment Expenses (CAE)	7,511,446	7,511,446
Aggregate Health Policy Reserves	92,738,856	92,738,856
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	<u>\$ 280,732,738</u>	<u>\$ 280,732,738</u>

The appointed actuary opined that the reserves for the above actuarial liabilities, including unpaid claims and CAE carried by the Plan as of December 31, 2017, were reasonable. Mr. Presley’s total estimate equaled the appointed actuary's and he concurred that the actuarial liabilities of the Plan were determined to be reasonably and accurately stated as of December 31, 2017.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Page

- 19 I recommend the plan amend the assumed reinsurance agreement with LifeMap to include an entire agreement clause pursuant to the provisions of OAR 836-012-0320.
- 20 I recommend the Plan amend its assumed reinsurance agreements with LifeMap and Asuris to include both a settlement clause pursuant to the provisions of OAR 836-012-0310 and an entire agreement clause pursuant to the provisions of OAR 836-012-0320.
- 21 I recommend the Plan amend its Reinsurance Agreement with MedAmerica to include a settlement clause pursuant to the provisions of OAR 836-012-0320.
- 21 I recommend the Plan amend the ceded reinsurance agreement with HM Life Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310.

CONCLUSION

During the three year period covered by this examination, the surplus of the Plan has increased from \$635,259,622, as presented in the December 31, 2014, report of examination to \$730,880,423, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	<u>2017</u>	<u>2014</u>	<u>Change</u>
Assets	\$ 1,194,792,198	\$ 1,039,743,203	\$ 155,048,995
Liabilities	<u>463,911,775</u>	<u>404,483,581</u>	<u>59,428,194</u>
Surplus	<u>\$ 730,880,423</u>	<u>\$ 635,259,622</u>	<u>\$ 95,620,801</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Khoa V. Nguyen, AFE, Maanik C. Gupta, and Michael P. Phillips, CFE, CPA, AES, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination. We would also like to thank the following for their participation in this coordinated examination:

Idaho Department of Insurance

Kelsey Barlow, MBA, APIR, Financial Examiner

Utah Department of Insurance

Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner and EIC

Mike Porter, AFE, APIR, Financial Examiner

Washington Office of the Insurance Commissioner

Tarik Subbagh, CFE, CPA, MSBA, Team Supervisor

Constantine Arustamian, CFE, CPA, CIE, Financial Examiner and EIC

Cynthia L. Clark, CPA, Financial Examiner

Zairina Othman, Financial Examiner

Johnson Lambert, LLP.

Elizabeth Nielson, CPA, CFE, representing Idaho as the EIC

Risk & Regulatory Consulting, LLC

John Humphries, AES, ASA, CFE, CISA, MAAA, MCM, Partner and Supervising Actuary

Mike Presley, FSA, MAAA, Lead Consulting Actuary

Shumei Kuo, FSA, MAAA, Assisting Consulting Actuary

Kristina Gaddis, AES, CFE, CISA, Actuarial Analyst

Respectfully submitted,



Mark Giffin, CFE

Senior Insurance Examiner

Division of Financial Regulation

Department of Consumer and Business Services

State of Oregon

AFFIDAVIT

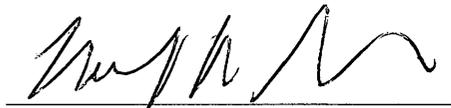
STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE being duly sworn, states as follows:

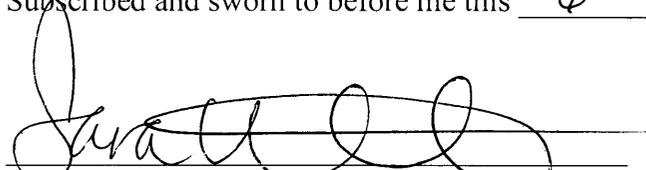
1. I have authority to represent the state of Oregon in the examination of Regence BlueCross BlueShield of Oregon, Portland, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Regence BlueCross BlueShield of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Mark Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 6th day of May, 2019.


Notary Public in and for the State of Oregon

My Commission Expires: 12/17/21

