

STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES
DIVISION OF FINANCIAL
REGULATION



REPORT OF FINANCIAL EXAMINATION
OF
HEALTHPLAN OF CAREOREGON, INC.
PORTLAND, OREGON

AS OF

DECEMBER 31, 2016

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NAIC COMPANY CODE 12277

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SALUTATION

March 1, 2018

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) Financial Condition 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
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 regular, full-scope, single state examination of Health Plan of CareOregon, Inc. The last examination of this health care service contractor covered the period from January 1, 2010 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2016.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows 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 the Plan'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 Plan and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Plan.

COMPANY HISTORY

The Plan was incorporated in Oregon on January 12, 2005, as a for-profit corporation to offer Medicare Advantage plan medical and drug coverage to enrollees who are dual eligible under both Medicare and Medicaid. The Division of Financial Regulation issued a Certificate of Authority on March 4, 2005 and the Plan began operations on January 1, 2006.

In a reorganization of the Company effective December 31, 2013, the Company merged with an affiliated company, CareOregon Advantage (COA). COA is a domestic Oregon non-profit public benefit corporation and the survivor of the merger, which changed its name to Health Plan of CareOregon, Inc. upon the merger. The Company filed an application for exemption from Federal income tax with the Internal Revenue Services (IRS) on December 31, 2016. The Federal government requires that Medicare contractors hold a license as an insurer at the state level.

Capitalization

The Plan was initially capitalized in February, 2005 with the purchase of its common stock by CareOregon, Inc. for \$3,000,000, with \$10 reported as capital stock and \$2,999,990 in paid-in surplus. The parent contributed an additional \$2,400,000 for start-up expenses from February to December, 2005 and another \$5,000,000 in December, 2005 to meet state net worth requirements to allow the Plan to commence health insurance operations on January 1, 2006. An additional \$1,000,000 contribution was made by the parent in March, 2006. Upon completion of the reorganization in 2013, the remaining \$10 in capital stock was converted to paid-in or contributed surplus. Most recently, in December, 2015, the parent contributed \$25,000,000 in surplus. At December 31, 2016 the Plan reported gross paid-in and contributed surplus of \$36,400,000. The capitalization complied with the capital and surplus requirements of ORS 750.045.

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 parent, CareOregon, Inc.

CORPORATE RECORDS

Board Minutes

Board members of the Plan are identical to the members of the parent, CareOregon, Inc. and the two entities hold joint meetings at least quarterly. A review of the Board of Director meeting minutes indicated the Board performed its designated duties in managing the affairs of the Plan as specified in its Bylaws. Actions of the Board were supported by a quorum for those meetings.

The Plan's Bylaws, in Article VII, authorize the Board of Directors to appoint and create committees as it deems appropriate or necessary and to define the duties of such committees. The Board of Directors is also authorized to appoint directors of each committee and all committees shall consist of two or more Board members. The Plan's Board has authorized Executive Compensation, Finance, Audit & Compliance, Governance and Community Relations committees, all of which have formal charters. The actions of the various committees were summarized and reported to the board of directors during their regular meetings.

The Compensation Committee as well as the Board approves the compensation of the CEO as well as the other executive members, including the CFO, COO, and Chief Medical Officer, annually after a formal evaluation is conducted. The CEO makes recommendations to the Committee for the other C-suite members compensation but ultimately, the Committee approves all compensation. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan last amended its Articles of Incorporation on December 22, 2016. The amended Articles changed the Plan from a licensed health care service contractor to a nonprofit public benefit corporation operating under Section 501(c)(3) of the Internal Revenue Code of 1986. The Plan's address was also changed to reflect its current location. The restated Articles of Incorporation became effective on December 31, 2016. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Plan's Bylaws were amended and restated on May 9, 2014. The amendments established the Corporation as having all statutory powers and designated it as a public benefit, membership corporation organized under the Oregon Nonprofit Corporation Act, ORS Chapter 65. The Plan's Bylaws conformed to the Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article 5.1, 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 under the direction of the Board of Directors. The Bylaws, in Article 5.2, state that the number of directors of the corporation shall be at least three (3) and no more than fifteen (15). The Bylaws, in Article 5.3, state that the Board of Directors will have, in the aggregate, expertise in the areas of health care, public health, insurance, finance, law, general management, public affairs and consumer affairs in order to assure appropriate direction and governance of the Corporation. In addition, at all times the composition of the Board shall comply with ORS 750.015 and a majority of directors shall be community members who are not employees of the

Corporation. At December 31, 2016, the Plan was governed by an eleven member Board of

Directors as follows:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Beth A. deHamel Portland, Oregon	Chief Financial Officer Mercy Corp	January 2009
Brenda I. Johnson Medford, Oregon	Chief Executive Officer La Clinica	January 2014
Susan M. Hennessy West Linn, Oregon	Retired Healthcare Executive	September 2015
Joanne Fuller, M.S.W Portland, Oregon	Health Department Director Multnomah County	January 2013
Damien R. Hall Portland, Oregon	Partner Ball Janik, LLP.	October 2014
Vickie S. Gates Portland, Oregon	Retired Healthcare Policy Expert	October 2008
Nathalie M. Johnson, MD, FACS Portland, Oregon	Medical Director Legacy Cancer Services	April 2010
Eric C. Hunter Portland, Oregon	President and CEO Health Plan of CareOregon, Inc.	June 2016
Glenn S. Rodriguez, M.D.* Portland, Oregon	Retired Healthcare Executive	September 2013
HyoSuk Rhee Portland, Oregon	Vice President, Strategy & Community Partnership Northwest Health Foundation	July 2015
Robert C. Stewart Canby, Oregon	Superintendent Gladstone School District	September 2010

*Board Chairman

Under Oregon Law, ORS 750.015, not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor shall be representatives of the public who are not practicing doctors, or employees, or trustees of a participant hospital. The Plan was in compliance with its Bylaws and with ORS 750.015.

Officers

Principal officers serving the Plan at December 31, 2016, were as follows:

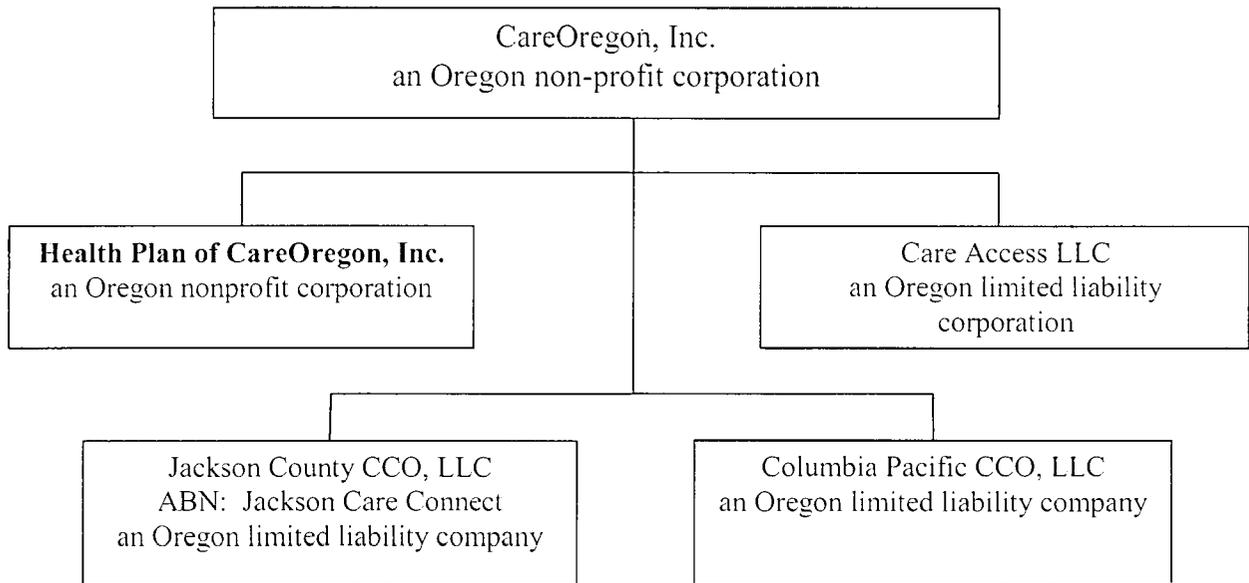
<u>Name</u>	<u>Office</u>
Eric C. Hunter	President and Chief Executive Officer
Katherine A. Ellis	Secretary and Chief Operating Officer
Teresa K. Learn	Treasurer and Chief Financial Officer
Amit Shah	Chief Medical Officer

Conflict Of Interest

The Plan's conflict of interest policy is distributed to board members annually. It applies to directors, officers, key employees and any other individual in a position to exercise significant influence over a decision having material economic impact. An annual conflict of interest declaration and independence questionnaire is required to be signed which acknowledges the individual's compliance with the conflict of interest policy and is used to disclose any potential conflicts. The governance committee reviews the responses to the questionnaires and makes recommendations to the full board on any resolutions or actions required to mitigate any material conflicts. Based on a review of the 2016 questionnaires, no material conflicts of interest were noted.

Insurance Company Holding System

The following organizational chart shows the relationship with the Plan within the insurance holding company system:



A description of the entities within the holding company is as follows:

CareOregon, Inc. (COR) is an Oregon non-profit public benefit corporation registered with the IRS as an Internal Revenue Code 501(c)(3) corporation. COR is the ultimate controlling entity and holds delegation agreements with several coordinated care organizations.

Care Access LLC (CAL) is an Oregon limited liability corporation formed on July 28, 2009. CAL purchased a medical office building in July, 2009, to improve access to primary care in the underserved Rockwood area of Gresham, Oregon.

Columbia Pacific CCO, LLC (CPC) was formed in 2012 as part of the Oregon Legislature’s plan to transform the Oregon Health Plan system through Coordinated Care Organizations. The CCO contracted with CareOregon, Inc. to manage care and provide health care services to Medicaid members who are enrolled in the Oregon Health Plan, which is administered by the Oregon Health Authority. The CCO serves Clatsop, Columbia and Tillamook Counties.

Jackson County CCO, LLC (JCC) was also formed in 2012 and under the assumed business name of Jackson Care Connect. JCC contracts with CareOregon, Inc. to manage care and provide health care services to Medicaid members who are enrolled in Jackson County.

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, 2016, under the following related party agreement:

Management Agreement

The management agreement with CareOregon, Inc. was entered into on January 14, 2005, and amended May 31, 2005 and November 15, 2007. It 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. All employees working for the Plan are employed by CareOregon, Inc.

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 coverage. All of the Plan's insurance coverages name CareOregon, Inc. as the covered entity as all employees are employed by the parent. CareOregon, Inc. is insured up to \$3,000,000 per individual loss after a \$25,000 deductible against losses from acts of theft, forgery, money orders and counterfeit money, computer

crime/fraud, and funds transfer 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, 2016, were found to be adequate, and included:

Property liability	Errors and Omissions
Commercial Auto	Directors and Officers liability
Commercial General liability	Crime Coverage
Employee Benefits liability	Cybersecurity Coverage

TERRITORY AND PLAN OF OPERATION

The Plan provides health care services to its members in eleven counties throughout Oregon, including the Portland Metropolitan area. The Plan operates a Special Needs Medicare Advantage and Prescription Drug (MA-PD) Plan under the name CareOregon Advantage Plus, that provides Medicare health care services to many of its Parent’s Medicaid and Medicare dual eligible members, as well as a commercial MA-PD Medicare Plan marketed as CareOregon Advantage STAR, for members who are not dually eligible. Enrollment at December 31, 2016 in the STAR plan comprised approximately 23% of members, compared to the approximately 77% of members covered by the Special Needs plan.

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

Line of Business	2016	2015	2014	2013	2012
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	13,121	11,993	11,038	9,435	8,627
Medicaid	0	0	0	0	0
Other	0	0	0	0	0
Total enrollment	<u>13,121</u>	<u>11,993</u>	<u>11,038</u>	<u>9,435</u>	<u>8,627</u>

GROWTH OF THE COMPANY

The growth of the Plan over the past five years is reflected in the following table. The stated amounts were obtained from the Plan's filed annual statements, except for those years in which an 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</u>
2012*	\$ 57,907,737	\$ 19,185,448	\$ 38,722,289	\$ 3,888,524
2013	66,898,863	26,827,632	40,071,231	502,119
2014	57,796,975	23,280,517	34,516,458	(5,040,529)
2015	69,899,999	29,366,757	40,533,242	(16,161,122)
2016*	60,509,827	30,059,941	30,449,886	(8,580,841)

*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 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) CAE and General Expenses</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2012*	\$ 105,567,283	\$ 89,008,868	84.3%	12,207,086	95.9%
2013	115,517,107	99,978,724	86.5%	11,587,463	96.6%
2014	130,904,517	121,949,085	93.1%	16,166,137	105.5%
2015	145,294,349	144,223,455	99.3%	18,497,885	112.0%
2016*	163,271,143	154,760,563	94.8%	24,174,270	109.6%

*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 2012 and 2013 and underwriting losses in 2014, 2015, and 2016.

REINSURANCE

Assumed

None.

Ceded

During the period under examination, the Plan entered into annual Stop Loss Reinsurance Agreements with Physicians Insurance A Mutual Company (PI) (NAIC 40738). The Agreement covers both the Advantage STAR line of business for standard Medicare members and the Special Needs Medicare Advantage line of business for dual eligible members. Under terms of the 2016 agreement, the Plan will cede to PI and PI will reinsure the percentage payable of eligible expenses incurred per member per contract year that exceed the applicable attachment point, up to any applicable maximums for the specified lines of business. Self-funded employees are not covered under the Agreement, unless they are employees for which the Plan has risk, and they are specifically listed in the above lines of business. The agreement has a \$400,000 retention per member for both lines of business, with an individual contract yearly maximum of \$2,000,000. The Agreement contained an acceptable insolvency clause pursuant to the provisions of ORS 731.508.

In view of the Plan's total capital and surplus of \$30,449,886 at December 31, 2016, they do not maintain risk on any one subject in excess of ten percent of its capital and surplus, pursuant to the provisions of 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, 2016 annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company maintains its accounting records on a modified Generally Accepted Accounting

Principle (GAAP) accrual basis of accounting and adjusts to a Statutory Accounting Principle (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of KPMG. The Company received unqualified opinions for each of the four 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 Note at US Bank in the amount of \$300,000 (par value) with the Department of Consumer and Business Services, Division of Financial Regulation. The Treasury Note was confirmed with the Division of Financial Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There was one recommendation made in the 2012 report of examination; however, no adjustments were made to surplus as a result of the examination findings. The DFR financial analyst noted that the Plan was in compliance with the recommendation, which was confirmed by the examination team.

SUBSEQUENT EVENTS

There were no events subsequent to the examination period that would have a material impact on the Plan's surplus position.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Oregon Division of Financial Regulation and present the financial condition of the Plan as of December 31, 2016. 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

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, 2016

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 50,417,191	\$ -	\$ 50,417,191	1
Cash, cash equivalents and short-term investments	2,570,311	-	2,570,311	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$ 52,987,502</u>	<u>\$ -</u>	<u>\$ 52,987,502</u>	
Investment income due and accrued	372,745	-	372,745	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	48,899	-	48,899	2
Accrued retrospective premiums	5,424,770	-	5,424,770	2
Amounts recoverable from reinsurers	79,000	-	79,000	2
Amounts receivable relating to uninsured plans	362	-	362	
Receivable from parent, affiliates and subsidiaries	73,358	-	73,358	
Health care and other amounts receivable	1,523,191	-	1,523,191	2
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 60,509,827</u>	<u>\$ -</u>	<u>\$ 60,509,827</u>	

HEALTH PLAN OF CAREOREGON, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2016

Liabilities, Surplus and other Funds	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$ 19,722,774	\$ -	\$ 19,722,774	3
Accrued medical incentive pool and bonus	-	-	-	3
Unpaid claim adjustment expenses	638,000	-	638,000	3
Aggregate health policy reserves	1,664,484	-	1,664,484	3
Premiums received in advance	47,207	-	47,207	
General expenses due or accrued	2,331,678	-	2,331,678	
Amounts due to parent, subs and affiliates	1,978,434	-	1,978,434	
Liability for amounts due under uninsured plans	3,677,364	-	3,677,364	
Aggregate write-ins for other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 30,059,941</u>	<u>\$ -</u>	<u>\$ 30,059,941</u>	
Common capital stock	\$ -	\$ -	\$ -	
Gross paid in and contributed surplus	36,400,000	-	36,400,000	
Unassigned funds (surplus)	<u>(5,950,114)</u>	<u>-</u>	<u>(5,950,114)</u>	
Surplus as regards policyholders	<u>30,449,886</u>	<u>-</u>	<u>30,449,886</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 60,509,827</u>	<u>\$ -</u>	<u>\$ 60,509,827</u>	

HEALTH PLAN OF CAREOREGON, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2016

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	\$ 166,005,463	\$ -	\$ 166,005,463	
Change in unearned premium reserves and reserves for rate credit	(2,734,320)	-	(2,734,320)	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenues	<u>163,271,143</u>	<u>-</u>	<u>163,271,143</u>	
Hospital and Medical				
Hospital/medical benefits	105,862,155	-	105,862,155	
Other professional services	12,710,500	-	12,710,500	
Outside referrals	14,080,497	-	14,080,497	
Emergency room and out-of-area	5,695,373	-	5,695,373	
Prescription drugs	16,379,775	-	16,379,775	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	-	-	-	
Subtotal	<u>154,728,300</u>	<u>-</u>	<u>154,728,300</u>	
Less:				
Net reinsurance recoveries	<u>(32,263)</u>	<u>-</u>	<u>(32,263)</u>	
Total medical and hospital	154,760,563	-	154,760,563	
Non-health claims	-	-	-	
Claim adjustment expenses	11,359,452	-	11,359,452	
General administrative expenses	12,814,818	-	12,814,818	
Decrease in reserves for life and accident and health contracts	<u>(5,834,000)</u>	<u>-</u>	<u>(5,834,000)</u>	
Total underwriting deductions	<u>173,100,833</u>	<u>-</u>	<u>173,100,833</u>	
Net underwriting gain or (loss)	<u>(9,829,690)</u>	<u>-</u>	<u>(9,829,690)</u>	
Net investment income earned	1,176,219	-	1,176,219	
Net realized capital gains (losses)	<u>78,243</u>	<u>-</u>	<u>78,243</u>	
Net investment gains (losses)	<u>1,254,462</u>	<u>-</u>	<u>1,254,462</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	(8,575,228)	-	(8,575,228)	
Federal income taxes incurred	<u>5,613</u>	<u>-</u>	<u>5,613</u>	
Net income	<u>\$ (8,580,841)</u>	<u>\$ -</u>	<u>\$ (8,580,841)</u>	

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

	2016	2015	2014	2013
Surplus as regards policyholders, December 31, previous year	<u>\$ 40,533,242</u>	<u>\$ 34,516,458</u>	<u>\$ 40,071,231</u>	<u>\$ 38,722,289</u>
Net income	(8,580,841)	(16,161,122)	(5,040,529)	502,119
Change in net unrealized capital gains or (losses)	-	-	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-
Change in net deferred income tax	-	(2,082,183)	269,062	948,161
Change in non-admitted assets	(1,502,516)	(739,911)	(783,306)	(101,338)
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	(10)
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	-	25,000,000	-	10
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>(10,083,357)</u>	<u>6,016,784</u>	<u>(5,554.73)</u>	<u>1,348.942</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 30,449,885</u>	<u>\$ 40,533,242</u>	<u>\$ 34,516,458</u>	<u>\$ 40,071,231</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2016, 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 \$4,796,922, equal to 9.5% of total bonds and 8.8% of its total invested assets.

The Plan reported \$3,811,589 in short-term investments, which consisted of one treasury plus money market mutual fund held at Wells Fargo Bank and one U.S. Bank First American Government Obligations fund used to earn interest on overnight sweeps from the zero balance cash accounts. Cash on deposit was held in accounts at Wells Fargo Bank, NA.

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 of A/</u> <u>Total Assets</u>	<u>Ratio of B/</u> <u>Total Assets</u>
2012*	42,820,086	13,165,993	74%	23%
2013	55,955,704	5,585,249	84%	8%
2014	45,589,745	778,193	79%	1%
2015	51,540,597	6,345,676	74%	9%
2016*	50,417,191	2,570,311	83%	4%

* Balance per examination

The Board approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2016, 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 1, 2014 the Plan entered into a custodial agreement with Wells Fargo Bank, NA. The agreement contained all the relevant protections describe in OAR 836-027-0200-(4)(a) through (l).

Note 2 – Actuarial Items Presented as Assets

Indicated line items on the asset page were reviewed by David N. Ball, FSA, MAAA, life and health actuary for the Oregon Division of Financial Regulation with no adjustments to the Annual Statement amounts noted.

Note 3 – Actuarial Reserves

A review of the unpaid claims, claim adjustment expenses, and aggregate health policy reserves for the Plan was performed by David N. Ball, FSA, MAAA, life and health actuary for the Oregon Division of Financial Regulation. As part of his review, he examined the Actuarial

Report Supporting Statements as of December 31, 2016, prepared by Mary K. Hegemann, FSA, MAAA, of Wakely Consulting Group, LLC. 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 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	\$ 16,937,974	\$ 19,722,774
Accrued Medical Incentive Pool and Bonus Payments	-	-
Unpaid Claims Adjustment Expenses (CAE)	638,000	638,000
Aggregate Health Policy Reserves	1,664,484	1,664,484
Aggregate Health Claim Reserves	-	-
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	<u>\$ 19,240,458</u>	<u>\$ 22,025,258</u>

The appointed actuary opined that the actuarial reserves carried by the Plan as of December 31, 2016 were reasonable. Mr. Ball's total estimate was less than the appointed actuary's estimate by \$2.78 million, a difference of 12.6%, indicating a reserve redundancy. He concurred that the reserves of the Plan were reasonably stated as of December 31, 2016.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report of examination had no comments or recommendations.

CONCLUSION

During the four year period covered by this examination, the surplus of the Plan has decreased from \$38,722,289, as presented in the December 31, 2012, report of examination, to \$30,449,886 as shown in this report. Comparative assets and liabilities are:

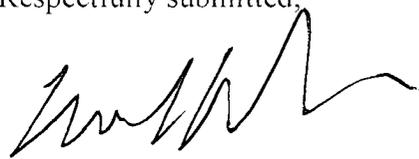
	<u>2016</u>	December 31, <u>2012</u>	<u>Change</u>
Assets	\$ 60,509,827	\$ 57,907,737	\$ 2,602,090
Liabilities	<u>30,059,941</u>	<u>19,185,448</u>	<u>10,874,493</u>
Surplus	<u>\$ 30,449,886</u>	<u>\$ 38,722,289</u>	<u>\$ (8,272,403)</u>

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, Maanik Gupta, Tho Le 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, Division of Financial Regulation, participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mark A. Giffin', written over a horizontal line.

Mark A. Giffin, CFE
Senior Insurance Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

State of Oregon)
) ss
Marion County)

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

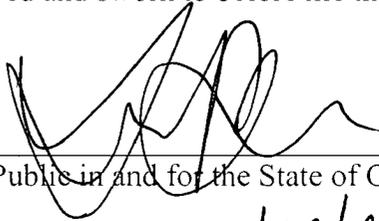
1. I am authorized to represent the state of Oregon in the examination of Health Plan of CareOregon, Inc.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of 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.



Mark A. Giffin, CFE
Senior Insurance Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 19th day of March, 2018.



Notary Public in and for the State of Oregon

My Commission Expires: 1/22/22

