STATE OF OREGON

DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
PORTLAND, OREGON

AS OF

DECEMBER 31, 2016

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OF

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
DBA KAISER PERMANENTE
PORTLAND, OREGON

NAIC COMPANY CODE 95540

AS OF

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SALUTATION

August 25, 2017

Honorable Jean Straight, Acting Director
Department of Consumer and Business Services
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

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
DBA KAISER PERMANENTE
500 NE Multnomah Street, Suite 100
Portland, Oregon 97232

NAIC Company Code 95540

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

SCOPE OF EXAMINATION

We have performed our regular, full-scope, multi-state examination of Kaiser Foundation Health Plan of the Northwest. The last examination of this health care service contractor was completed as of December 31, 2013. The current examination covers the period of January 1, 2014, to December 31, 2016.

We completed 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 Company 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 Company 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 Company'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, are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Plan was incorporated as Kaiser Foundation Health Plan of Oregon, a non-profit corporation in the State of Washington, on May 1, 1942, and remained a Washington corporation from 1942 to 1981. It then redomesticated to Oregon by incorporating under the provisions of ORS Chapter 61 on October 19, 1981, and received its Certificate of Authority on December 30, 1981, whereupon the Plan became authorized to transact the business of accepting the prepayment of health care services as a health care service contractor under the provisions of ORS Chapter 750. On November 26, 1984, the present name of the Plan was adopted, and effective February 13, 1995, the Plan adopted an assumed business name of Kaiser Permanente.

The Plan is a non-profit charitable corporation and is generally exempted from federal and state income taxes. Until October 10, 2008, the Plan was a qualified health maintenance organization (HMO) under the Health Maintenance Organization Act of 1973, after which point its status became a Competitive Medical Plan.

Capitalization

The Plan is a non-profit corporation registered as a public benefit corporation with members. It reported $177,753,051 as paid in or contributed surplus. The last report of examination reflected paid in or contributed surplus in the amount of $2,753,051. In 2015, the Plan recorded a $175,000,000 capital contribution from Kaiser Foundation Hospitals.

Dividends and Other Distributions

The Plan has not paid any dividend or made any distributions during the period under examination.

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.

The Plan's Bylaws authorize an Executive Committee and any other committee the Board may appoint to advise and assist in managing the corporation's affairs. Kaiser Foundation Health Plan, Inc. (KFHP), the direct parent, has a number of committees that oversee and support the Kaiser Permanente Group; an Executive Committee, an Audit and Compliance Committee, a Finance Committee, a Compensation Committee, a Governance Committee, an Accountability and Nominating Committee, a Quality and Health Improvement Committee, and a Community Benefit Committee. Due to composition of the Boards consisting of identical Board members, the committee meetings of the Plan and its direct parent are combined. The minutes indicated the Board approves officer salaries through the executive and compensation committees to comply with the provisions of ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation were originally filed with the Oregon Division of Financial Regulation on October 19, 1981. The Plan most recently filed an amended and restated Articles of Incorporation effective June 29, 2012. No other changes were made to the Articles during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The initial corporate Bylaws were adopted on October 19, 1981. The Plan's Bylaws were last amended on March 3, 2016. Article D was amended, changing the number of directors from 15 to a range from 13 to 17 directors and changing age and term requirements.

No other changes were made during the period under examination. The Plan's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article VI, state all corporate powers of the corporation shall be exercised by or under the authority of the Board of Directors and the Board shall control the business and affairs of the corporation. Section D-2 state the number of directors shall be a range from 13 to 17, with two being inside directors, the Chairman of the Board who shall serve ex officio, and a second shall be a senior officer of the Health Plan and Hospitals, designated by the Chairman of the Board. As of December 31, 2016, the Plan was governed by a fourteen member Board of Directors as follows:

Name	Principal Affiliation	Member Since	Representative
Margaret E. Porfido Boulder, Colorado	Former Chief HR Officer and Senior VP Level 3 Communications, Inc.	2011	Public
Judith A. Johansen Portland, Oregon	Former President Marylhurst University	2006	Public
Kim J. Kaiser Seattle, Washington	Retired Pilot Alaska Airlines	2004	Public
Jeffrey E. Epstein Menlo Park, California	Operating Partner Bessemer Venture Partners	2013	Public

Name	Principal Affiliation	Member Since	Representative
Regina M. Benjamin Spanish Fort, Alabama	Founder of Bayou Clinic, Inc. and Former U.S. Surgeon General	2015	Public
Cynthia A. Telles Sherman Oaks, California	Director, Spanish-Speaking Psychosocial Clinic, Neuropsychiatric Institute and Hospital and Associate Clinical Professor UCLA Dept. Of Psychiatry & Behavioral Sciences	2003	Medical
Bernard J. Tyson Oakland, California	Chairman & CEO & President Kaiser Foundation Health Plan, Inc.	2012	Company (ex officio)
Edward Ying Wah Pei Honolulu, Hawaii	Executive VP Hawaii Bankers Association	2006	Public
Richard P. Shannon Keswick, Virginia	Executive Vice President for Health Affairs University of Virginia	2014	Public
Ramon F. Baez Menlo Park, California	Former SVP Customer Advocacy Hewlett Packard Enterprise	2016	Public
Arnold E. Washington Durham, North Carolina	Chancellor for Health Affairs, Duke University and President and CEO Duke University Health System	2016	Public
David F. Hoffmeister Rancho Santa Fe, California	Former Senior Vice President & Chief Financial Officer Life Technologies, Inc.	2014	Public
Philip A. Marineau (1) San Francisco, California	Partner LNK Partners	2004	Public
Leslie S. Heisz Pacific Palisades, California	Former Managing Director Lazard Ltd	2015	Public

(1) Retired December 31, 2016

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 composition of the Plan's Board of Directors complied with ORS 750.015.

Officers

Principal Officers serving at December 31, 2016, were as follows:

Officer	Office
Andrew R. McCulloch	Regional President
William N. Wiechmann	Asst. Secretary, VP & Regional Counsel
Jenny Smith	Interim CFO and Exec. Director
Bernard J. Tyson	President & CEO
Gregory Adams	Exec. VP & Group President
Mark S. Zemelman	Sr. VP, General Counsel & Secretary
Thomas R. Meier	Sr. VP & Treasurer
Kathryn L. Lancaster	Exec. VP, Chief Financial Officer
Arthur M. Southam, MD	Exec. VP, Health Plan Operations
Donald H. Orndoff	Sr. VP, National Facilities Services
Alfonse L. Upshaw	Sr. VP, Corp. Controller & Chief Accounting Officer

Most of the officers listed above are directly employed by the parent, KFHP. In addition, the Plan has a senior leadership team that manages the affairs of the Company in the Northwest region:

Officer	Office
Andrew R. McCulloch	Regional President and Chief Executive Officer
Jenny Smith	Interim Regional VP and Chief Financial Officer
William N. Wiechmann	Regional VP and Regional General Counsel
Missy Maese	Interim Regional Compliance Officer
David Strickland	VP, Business Information
Dan Field, JD	Executive Director, Community Benefit & External Affairs
Stephen Fortman	VP, Research Director Center for Health Research
Frank Hurtarte	VP, Human Resources
Keith Forrester	VP, Marketing, Sales & Business Development
David Lake	VP, Health Plan Operations & Strategy
Janet O'Hollaren	COO, Ambulatory & Hospital Operations
Wendy Watson	VP, Ambulatory & Clinic Services
Ken Wright, DMD	VP, Dental Services

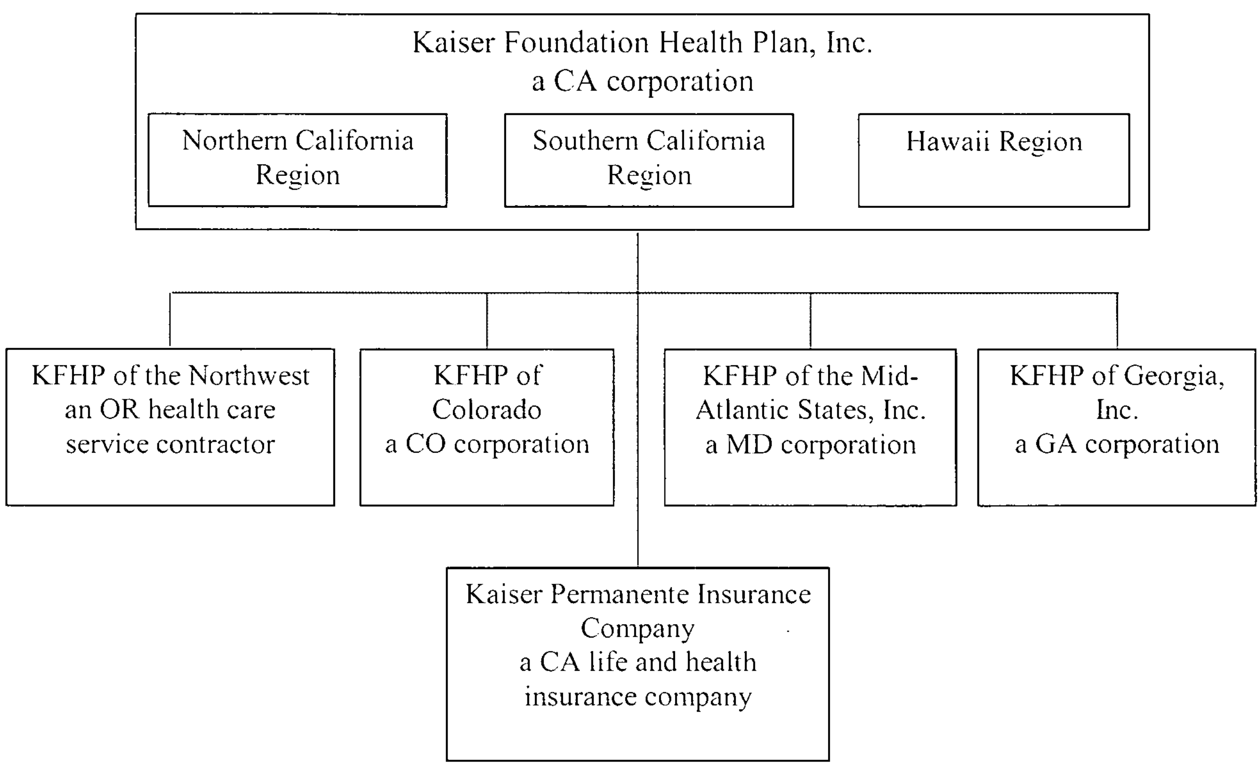
Conflict Of Interest

The Plan's Board adopted its ultimate controlling entity's Principles of Responsibility, a system-wide code of conduct. This requires all employees to notify the Plan if a conflict of interest arises. In addition, the Plan has a process in place requiring all Board members, senior officers and key employees 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 a member of an Insurance Company Holding System with Kaiser Foundation Health Plan, Inc., a non-profit health care service plan operating as a Knox-Keene health care company in the State of California and is the sole corporate member of the Plan. It is the ultimate controlling entity for plans and insurers in California, Colorado, Mid-Atlantic (includes DC, Maryland and Virginia), Hawaii, Georgia, and the Northwest (includes Oregon and Washington).

The following is an abbreviated organization chart of those entities (all subsidiaries are 100% owned or controlled):



A description of other entities with dotted lines within the holding company system with contracts or other dealings with the Plan is as follows:

Kaiser Foundation Hospitals (KFH), a CA non-profit corporation that provides or arranges hospital and medical services to members.

The Plan, KFHP, and KFH share a common Board of Directors in addition to sharing certain corporate officers.

Permanente Medical Groups (PMG) is comprised of for-profit corporations or professional partnerships, owned by physicians, to provide for or arrange medical care for members in each of the regions served by KFHP.

Permanente Dental Associates, PC (PDA) is an OR for-profit partnership doing business in the Pacific Northwest providing dental services for members.

Lokahi Assurance Ltd. is an HI limited liability corporation that is a captive insurance corporation for self-insured risks.

Ordway Indemnity, Ltd. is a Bermuda domiciled captive insurance corporation. KPHP is the sole owner of Ordway International, Ltd, which in turn is the sole owner of Ordway Indemnity. The corporation provides excess professional liability coverage.

Oak Tree Assurance, Ltd. is a VT domiciled captive insurance corporation wholly owned by KPHP that provides workers compensation and construction risk self insurance programs.

INTERCOMPANY AGREEMENTS

Agreements or contracts between the insurance companies and its affiliates within the insurance holding company system are as follows:

Service Agreement

Under the agreement, effective January 1, 2011, and last amended to be effective January 1, 2016, between the Plan and Kaiser Foundation Hospitals, healthcare benefits are made available to Plan members through provider contracts with the following organizations:

a. Kaiser Foundation Hospitals, a California non-profit public benefit corporation, under a "Hospital Service Agreement" agrees to provide all hospital services and all hospital based medical facilities necessary to satisfy the obligations of the Plan to the members. Arrangements with non-owned hospitals are also in effect with hospitals in Portland, Oregon, and Clark County, Washington.

b. Northwest Permanente, P.C., Physicians and Surgeons, is an Oregon professional corporation of physicians. Under the "Medical Service Agreement" the physicians provide all professional physician services necessary to satisfy the obligations of the Plan to the members. Northwest Permanente is compensated primarily on a capitated basis. The Northwest Permanente physicians, as part of contracted services provided for by the capitation fee, are responsible for the costs of any referrals they make to outside doctors and specialists.

c. Permanente Dental Associates is an Oregon partnership of dentists. Under the "Dental Service Agreement" the dentists provide all the professional services necessary to satisfy the obligations of the Plan to the members. The dentists are compensated in a manner similar to the Northwest Permanente group (capitation basis) and also share in the costs of any referrals.

The Plan will pay compensation to Hospitals no less than quarterly and the final payment for the year shall be not later than ninety (90) days after the end of the calendar year.

Administrative Services Agreement

Effective December 1, 2000, amended and recently restated January 1, 2013, and last amended and most recently restated May 1, 2015, the Company entered into an Administrative Services Agreement with its parent, KFHP, under which KFHP shall provide pharmaceutical services, financial services, human resource services, risk management and insurance services, cash management services, retirement services, claims shared services, facilities services, membership administration services and program office services. The Plan agrees to pay either (a) a per member per month fee, (b) an amount based on the cost of providing such services, or (c) such other amounts as the parties may negotiate from time to time. The agreement specify that expenses incurred and payment received shall be allocated to affiliate in conformity with customary insurance accounting practices consistently applied and shall be timely settled no less frequently than quarterly.

Master Service Agreement for Administrative and Clinical Services

Effective January 1, 2014, the Health Plan entered into an agreement with Kaiser Foundation Hospitals, on behalf of the Northwest Region (KFH). Under this agreement, KFH and the Health Plan will provide services to each other from time to time in their roles as health care providers and it's not intended to amend or supplement the Hospital Service Agreement. The administrative services include non-clinical support services such as personnel management, financial services, mail services, and human resources. KFH and KFHP-NW each provides administrative services to the other. The clinical services are non-physician clinical staff, equipment and supplies used to render health care services. KFH and KFHP-NW each provides Clinical Services to the other. The administrative services include those provided by KFHP-NW to KFH in KFH Facilities. The Services include both managed services and other administrative services, which includes: executives, human resources, risk management, compliance, finance, IT, accreditation regulation & licensing, strategic planning, and other support services. The clinical services provided from KFHP-NW to KFH include pharmacy, wound ostomy, regional and region lab. The administrative services provided from KFH to KFHP-NW include management services (patient access business services, and dietary services) and other administrative services (Communications and Other support services). The clinical services provided from KFH to KFHP-NW include infection control, palliative care, imaging service, vascular access services, and biomedical equipment.

Each party shall pay to the other an amount based on the cost of providing such services or the expenses incurred in the course of providing such services or such other amounts as the parties may negotiate from time to time. The parties shall take reasonable steps to ensure that the payment allocation equitably distributes costs across those organizations that consume the services.

This agreement was last amended on January 1, 2016. The amendment includes added new services provided from KFH to KFHP-NW. Managed care now includes the strategic program management service. The Clinical Services provided from KFHP-NW to KFH section states "Occasionally, non-professional clinical staff, equipment and supplies are provided by KFHP-NW to KFH, e.g., staff providing specialty care or covering for other staff on sick leave, and equipment and related supplies used for a special need or to temporarily replace equipment under repair." The Amended agreement listed a few specific examples.

Guaranty Agreement

Effective April 1, 1989, the Plan became a party to a Guaranty Agreement with Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and all the regional Subsidiary Plans at that time. Under terms of the agreement, Kaiser Foundation Hospitals and Kaiser Foundation Health Plan, Inc., each is a guarantor of the liabilities, debts and obligations of each other party to the agreement, and each of Kaiser Foundation Hospitals and Kaiser Foundation Health Plan, Inc., joint and severally unconditionally guarantees all obligations of each other party to the agreement.

Investment Account Participation Agreement

In 2007, in response to concerns with regulators of the regional health plans, Program Office-Oakland created an Agreement to invest the outstanding balances of inter-company receivables. Effective December 21, 2007, an Amended and Restated Investment Participation Agreement was entered into between Kaiser Foundation Hospitals, KFHP, and all the regional plans outside of California (with the exception of KFHP Colorado). The agreement also included Wells Capital Management, Inc., as the manager and State Street Bank and Trust Company as custodian. In the agreement, Program Services-Oakland created a Trust account containing all the invested assets, with each entity owning a sub-trust representing a proportional share. As part of the agreement, an Intercompany Lending Agreement was put into effect between the Company and KFH, whereby KFH may borrow up to 7 ½ percent of the value of the Company's assets under a revolving line of credit. All outstanding balances shall bear interest at a rate of LIBOR plus 50 basis points, with annual interest payments due June 30th of each year. The outstanding principal balance may be paid at any time but must be paid in full on November 1, 2021. This program was unwound effective January 31, 2014, and each health plan received its securities directly, however, the Intercompany Lending Agreement remains in force to provide cash management functions for the Plan.

Self-Funded Administrative Service Agreement

Effective July 1, 2008, this agreement went into effect between the Plan and Kaiser Permanente Insurance Company (KPIC), whereby KPIC will enter into agreements with Plan Sponsors under ASO Contracts to perform certain administrative services necessary for the operation of the self-funded health benefits plans. The Company agrees to provide integrated medical management services, network management services, sales and marketing, and customer services, as well as provide access to providers in Oregon and Washington. KPIC will pay a services fee equal to the Plan Sponsor ASO Fee, less the aggregate KPIC vendor costs and a 2% margin KPIC Fees. The agreement does not specify a due date for payment, but defaults to Settlement of Intercompany Transactions Agreement described below.

Intercompany Information Technology Services Agreement

Effective January 1, 2000, and last amended in 2004, Kaiser Foundation Hospitals, through KP-IT, agrees to provide or arrange through affiliates, independent contractors and outside professionals certain information technology services to KFHP and its subsidiaries, including the regional health plans. Services include purchasing, dispositions and management of information technology equipment, hardware and software. On a monthly basis, KFHP and its subsidiaries shall reimburse KFH through an intercompany chargeback methodology for services provided.

Right of Setoff Agreement

Effective January 1, 2001, between KFHP and each of its subsidiaries, the agreement states that one or more Kaiser organization(s) from time to time will owe determinable amounts to one or more other Kaiser Organization. At its election, any Kaiser Organization may offset any liabilities it may have to any other Kaiser Organization by any receivables then due.

Excess Professional and Public Liability Agreement

KFHP-NW entered into an agreement with Ordway Indemnity, Ltd, a Bermuda domiciled captive insurance company, a wholly owned subsidiary of KFHP, Inc. Ordway reimburses KFHP-NW for the damage awards and settled claim expenses on a per occurrence basis.

Assignment, Assumption and Novation Agreement

In 2011, KFHP-NW and Kaiser Permanente Oregon Plus, LLC (KPOP) entered into an Assignment, Assumption and Novation Agreement (Assignment Agreement). Under this Assignment Agreement, the Registrant assumes, performs and discharges all of KPOP's duties, obligations and liabilities. KPOP in turn assigns all rights, titles and interest in its assets to the Health Plan.

Optical Agreement

In 2015, KFHP-NW entered into the Optical Agreement with KFHP-HI. The Health Plan is to fabricate and supply to KFHP-HI surfaced uncut ophthalmic lenses, coated with such lens coatings as KFHP-HI requests, and provide other related services as the parties mutually agree, based on cost incurred.

Worker Compensation and Construction Risks Self-Insurance programs

In 2015, the Health Plan entered into an agreement with Oak Tree Assurance, Ltd., a wholly owned subsidiary of the KFHP, Inc. Oak Tree provides various workers' compensation and construction risks self insurance programs, such as earthquakes.

Settlement of Intercompany Transactions Agreement

Effective December 31, 2007, between KFHP and each of the regional health plans, the agreement states each party shall use its best efforts to settle all receivables, except loans, within thirty (30) days but no later than ninety (90) days from the initial reporting date. Amounts taking longer to settle will be nonadmitted.

Professional and General Liability Insurance

The Plan's professional and general liability risks were funded by two liability policies. The policies are issued by its captive insurance affiliate, Lokahi Assurance Ltd., domiciled in

Hawaii. Lokahi provides occurrence based indemnification to KFHP and its regional Plan subsidiaries. The Plan pays Lokahi monthly installments equal to an actuarially determined annual premium. The policy with Lokahi is described as a Professional and Public Liability (PPL) policy and covers errors & omission liability, general liability, contractual liability, and personal and advertising injury liability.

PENSIONS AND POST-RETIREMENT BENEFITS

Employee Retirement Plans

The Company participates in the Kaiser Permanente Retirement Plan, a defined benefits pension plan covering substantially all employees, and administered by KFHP. Benefits are based on age at retirement, years of credited service, and average compensation for a specific period prior to retirement. There were no employee contributions made during the period under examination, and the Plan contributed approximately $98.6 million in 2016, $82.8 million in 2015, and $46.4 million in 2014 for its employees. Costs associated with the pension plan are charged directly to current operations. During 2017, the Health Plan expects to contribute approximately $111.5 million to the pension plan.

The Plan also sponsors a defined contribution plan for certain eligible employees, with contributions and expenses based on a percentage of the employees' qualified compensation. The Plan expense allocated to the Plan and contributed were $13.5 million in 2016, $12.9 million in 2015, and $12.2 million in 2014.

In addition, the Plan participates in two defined benefit multi-employer pension plans to provide benefits to certain union-represented employees. The Plan's employer expense for these plans totaled $3.2 million in 2016, $3.2 million in 2015, and $2.9 million in 2014.

Post Retirement Benefits

The Company has a program in place for those employees eligible for health care and life insurance benefits upon retirement while working for the Plan, including subsidized Medicare premiums, medical and prescription drug benefits, dental benefits and vision benefits. There were no employee contributions from active employees during the period under examination, and employer contributions totaled $152.3 million in 2016, $123.2 million in 2015, and $34.6 million in 2014.

Starting January 1, 2013, the Plan became subject to SSAP No. 92 and No. 102 which require insurers to report gains or losses, prior service costs or credits, and remaining transition assets or obligations from prior application of SSAP No. 14 and No. 89, respectively, that have not yet been included in net periodic benefit cost as of December 31, 2012, as components of the balance of unassigned funds (surplus), net of tax. Due to the potential impact to surplus as a result of immediately applying the accounting guidance, reporting entities may elect to recognize the entire surplus impact over a period not to exceed ten (10) years. At December 31, 2015, the Plan had recognized all its unfunded obligations in post retirement liabilities and pension liabilities as a result of the accounting change.

TERRITORY AND PLAN OF OPERATION

The Plan writes comprehensive health insurance coverage in the states of Oregon and Washington on a group and individual basis. It participates in the Federal Employees Health Benefit Plan for qualified enrollees in its service area, as well as Medicare and Medicaid programs through the Centers for Medicare and Medicaid Services (CMS). It also offers dental only plans. The Plan's primary service areas include Portland and Salem, Oregon, and Vancouver and Kelso-Longview, Washington.

The Plan owns or leases the medical and dental office facilities at non-hospital locations and employs the administrative and supporting personnel in these offices. The Plan is not a direct provider of health care services, except to the extent non-physician personnel at non-hospital locations (e.g., clinic nurses) provide health care services under the direction of physicians.

The Plan has experienced a stable number of enrollees during the past five years, as follows:

Line of Business	**2016**	**2015**	**2014**	**2013**	**2012**
Health maintenance organizations	483,276	462,068	455,204	456,907	448,030
Provider service organizations	-	-	-	-	-
Preferred provider organizations	-	-	-	-	-
Point of service	15,198	13,526	13,164	15,794	16,607
Indemnity only	-	-	-	-	-
Other	-	-	-	-	-
Total enrollment	498,474	475,594	468,368	472,701	464,637

GROWTH OF THE COMPANY

Growth of the Plan over the past five years is reflected in the following table. 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.

Year	**Assets**	**Liabilities**	**Capital and Surplus**	**Net Income (Loss)**
2012	$ 1,152,730,905	$ 681,020,535	$ 471,710,370	$ 21,994,667
2013*	1,216,487,332	736,345,231	480,142,101	(14,941,651)
2014	1,300,833,164	1,097,678,750	203,154,414	(15,594,565)
2015	1,477,552,113	1,058,227,243	419,324,870	(13,498,515)
2016*	1,399,374,261	919,459,030	479,915,231	40,363,259

*Published exam report

LOSS EXPERIENCE

The following exhibit reflects the annual loss experience 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.

Year	(1) Total Premium Revenues	(2) Total Hospital and Medical	(2) / (1) Medical Ratio	(3) CAE and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2012	$ 2,862,571,362	$ 2,656,430,387	92.8%	$ 205,348,512	100.0%
2013*	3,007,953,433	2,821,201,585	93.8%	216,215,400	101.0%
2014	3,137,567,702	2,894,862,158	92.3%	278,274,857	101.1%
2015	3,357,499,890	3,111,395,712	92.7%	271,400,456	100.8%
2016*	3,558,578,480	3,276,429,030	92.1%	264,582,777	99.5%

*Published exam report

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss, which the Plan did report in 2015, 2014 and 2013.

REINSURANCE

Beginning January 1, 2004, the Plan self-insures its risks. The Plan did not assume or cede any business during the period under examination other than those mandated by statue, including the ACA Reinsurance Program.

The maximum retained risk on any one risk is unlimited; therefore it is not possible to determine if the Plan is in compliance with ORS 731.504, but based on its business model, its participation in a pandemic risk policy with the Parent's captive, Lokahi Assurance Ltd. and with reported surplus of $479,915,231 at December 31, 2016, the Plan believes it will not be exposed to any claim risk in excess of 10% of its total capital and surplus.

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.

STATUTORY DEPOSITS

To satisfy the statutory deposit requirement in Oregon for health care service contractors, the Plan maintained a deposit with the Division of Financial Regulation, Department of Consumer and Business Service, a US Agency Bond (FNMA) with a par value of $275,000, in compliance with ORS 750.045(2). The deposit was verified from the records of the Division of Financial Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no adjustments made to the Plan's surplus as a result of the prior examination and no recommendations or comments made. A follow-up review was not made for this company.

SUBSEQUENT EVENTS

1. On July 7, 2017, Andrew McCulloch retired as regional president of the health plan.
2. On January 13, 2017, the Washington State Office of Insurance Commissioner approved the acquisition of Group Health Cooperative (GHC) by Kaiser Foundation Heath Plan of Washington and on February 1, 2017, Kaiser Foundation Health Plan of Washington became the sole shareholder of GHC. Subsequently, KFHPW changed its name to KFHPW Holdings and GHC changed its names to Kaiser Foundation Health Plan of Washington, Inc. The parent of KFHPW Holdings is KFHP.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company 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

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
ASSETS
As of December 31, 2016

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 999,088,271	$ -	$ 999,088,271	1
Real Estate				
Properties occupied by the company	216,741,001	-	216,741,001	2
Properties held for the production of income	5,692,973	-	5,692,973	
Cash, cash equivalents and short-term investments	20,267,418	-	20,267,418	1
Receivable for securities	336,288	-	336,288	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	1,242,125,951	$ -	1,242,125,951	
Investment income due and accrued	3,906,868	-	3,906,868	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	16,814,209	-	16,814,209	
Accrued retrospective premiums and Contracts subject to redetermination	35,227,263	-	35,227,263	
Reinsurance				
Amounts recoverable from reinsurers	6,716,728	-	6,716,728	
EDP equipment and software	765,505	-	765,505	
Furniture and equipment, including health care delivery assets	78,079,773	-	78,079,773	
Receivable from parent, affiliates and subsidiaries	1,938,061	-	1,938,061	
Health care and other amounts receivable	13,799,903	-	13,799,903	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	$1,399,374,261	$ -	$1,399,374,261	

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2016

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$ 60,725,481	$ -	$ 60,725,481	3
Unpaid claim adjustment expenses	1,319,843	-	1,319,843	3
Aggregate health policy reserves	10,635,505		10,635,505	
Premiums received in advance	35,854,955	-	35,854,955	
General expenses due or accrued	119,962,322	-	119,962,322	
Ceded reinsurance premium payable	752,868		752,868	
Amounts withheld or retained for the account of others	1,584,926	-	1,584,926	
Payable to parent, subsidiaries and affiliates	160,300,713	-	160,300,713	
Liability for amounts held under uninsured plans		-		
Aggregate write-ins for liabilities	528,322,417	-	528,322,417	4
Total Liabilities	$ 919,459,030	$ -	$ 919,459,030	
Gross paid in and contributed surplus	$ 177,753,051	$ -	$ 177,753,051	
Unassigned funds (surplus)	302,162,180	-	302,162,180	
Surplus as regards policyholders	$ 479,915,231	-	$ 479,915,231	
Total Liabilities, Surplus and other Funds	$1,399,374,261	$ -	$1,399,374,261	

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
STATEMENT OF REVENUES AND EXPENSES
For the Year Ended December 31, 2016

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Revenue				
Net premium income	$3,333,769,985	$ -	$3,333,769,985	
Change in unearned premium reserves and reserves for rate credit		-		
Fee-for-service	71,133,336	-	71,133,336	
Risk revenue	149,009,844	-	149,009,844	
Aggregate write-ins for health care related revenues	4,665,315	-	4,665,315	
Total revenue	3,558,578,480	-	3,558,578,480	
Hospital and Medical:				
Hospital/medical benefits	1,544,584,881	-	1,544,584,881	
Other professional services	368,109,048	-	368,109,048	
Outside referrals	165,390,255	-	165,390,255	
Emergency room and out-of-area	95,021,830	-	95,021,830	
Prescription drugs	398,545,476	-	398,545,476	
Aggregate write-ins for other hospital and medical	713,083,568	-	713,083,568	
Incentive pool, withhold adjustments and bonus amounts	-	-	-	
Subtotal	3,284,735,058	-	3,284,735,058	
Less:				
Net reinsurance recoveries	8,306,028	-	8,306,028	
Total medical and hospital	3,276,429,030		3,276,429,030	
Non-health claims	-	-	-	
Claim adjustment expenses	43,296,334	-	43,296,334	
General administrative expenses	221,286,443	-	221,286,443	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	3,541,011,807	-	3,541,011,807	
Net underwriting gain or (loss)	17,566,673	-	17,566,673	
Net investment income earned	20,748,915	-	20,748,915	
Net realized capital gains (losses)	2,636,898	-	2,636,898	
Net investment gains (losses)	23,385,813	-	23,385,813	
Net gain or (loss) from agents' or premium balances charged off	(2,612,820)	-	(2,612,820)	
Aggregate write-ins for other income or expense	2,023,593	-	2,023,593	
Federal income taxes incurred	-	-	-	
Net income	$ 40,363,259	$ -	$ 40,363,259	

KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	$ 419,324,870	$ 203,154,414	$ 480,142,101
Net income	40,363,259	(13,498,515)	(15,594,565)
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	(945,813)	2,219,814	(100,923)
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	201,153	1,911,525	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	175,000,000	-
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	20,971,762	50,537,632	(261,292,199)
Change in surplus as regards policyholders for the year	60,590,361	216,170,456	(276,987,687)
Surplus as regards policyholders, December 31, current year	$ 479,915,231	$ 419,324,870	$ 203,154,414

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2016, the Plan's long-term bond investments were in a diversified portfolio of US obligations, US federal agency bonds, municipal obligations, corporate issues, and foreign securities. The Plan reported a moderate direct exposure in mortgaged-backed and asset-backed securities totaling $200,993,357, equal to 20.1% of total bonds and 16.2% of total invested assets.

The Plan reported short-term investments in four short term bonds and a single money market fund. Cash on deposit was held in various accounts at Wells Fargo, State Street Bank and Citibank.

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

	A	B	Ratio	Ratio
			A/	B/
Year	**Bonds**	**Cash and Short-term**	**Total Assets**	**Total Assets**
2012	$ 795,431,895	$ 27,880,870	69.0%	2.4%
2013 *	803,278,244	52,628,414	66.0%	4.3%
2014	864,559,715	33,382,185	66.5%	2.6%
2015	1,050,179,771	6,510,605	71.1%	0.5%
2016 *	999,088,271	20,267,418	71.4%	1.4%

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, thus the Plan was in compliance with ORS 733.580.

The Finance 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.

Effective August 28, 2003, the Plan entered into a custodial agreement with State Street Bank and Trust Company. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Real Estate Owned

The Plan owns 36 properties in Oregon and Washington primarily for the purpose of delivering services. Admitted value is actual cost plus improvements less depreciation and encumbrances.

Note 3 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by David Ball, FSA, MAAA, life and health actuary for the Oregon Division of

Financial Regulation. As part of his review, he examined the Actuarial Report Supporting Statements as of December 31, 2016, prepared by Robert S. Pickard, FSA, MAAA, Actuarial Manager of the Plan.

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:

	My Estimate	Annual Statement
Claims Unpaid	$72,835,172	$ 60,725,481
Unpaid Claims Adjustment Expenses (CAE)	1,583,051	1,319,843
Aggregate Health Policy Reserves	10,635,505	10,635,505
Actuarial Items Given as Assets	9,811,569	9,811,569

Estimates for this amount must consider four quantities that are derived separately. These quantities are regular IBNR, Due to Medical Groups, third party liabilities (TPL), coordination of benefits (COB) receivable, and reinsurance ceded.

His calculation of the unpaid claims estimate begins with the Regular IBNR. An accumulation of the payments incurred before the end of 2016 that were paid after the end of 2016 through June 2017 shows a total of $47,583,141. This exceeds the company's estimate of $40,440,921.

However, further investigation revealed a claims mapping issue beginning in 2015 between the Health Plan entity considered here and the Hospital entity which is quite separate. Some inpatient hospital claims that belonged to the former were mistakenly charged to the latter, so that the IBNR to the former was underestimated and the IBNR to the latter was overestimated by the same amount. Corrections were made in early 2017. This accounts for the difference in estimates described above. Meanwhile, there is no net impact on the Health Plan because its deficiency in IBNR before the adjustment was offset by its higher separate liability to the Hospital entity as reflected as an intercompany payable in the financial statements in accordance with the NAIC annual statement instructions.

The company's data for "regular" claims indicates that six months is sufficient for 91% of claims to be completed. Given the total pre-2017 claims paid through June 2017 above, he estimates that the completed payments would be expected to total $52,289,166. To this he added a 0.5% margin for uncertainty. Mr. Ball's estimate for the Regular IBNR portion of the total unpaid claims liability is thus $52,550,612.

The item "Due to Medical Groups" is similar to a total withhold. These are amounts due to their physician provider group, based on several factors including risk sharing, quality measures, and the group's expenses, and to their dental provider group, based on membership. The total is $29,379,039.

The item TPL/COB receivable offsets the other unpaid claims items. The TPL part comes about when members or nonmembers are treated in Kaiser's facilities but a third party is responsible for costs of services, as in cases of auto accidents. The COB portion occurs because Kaiser may recover from the other carrier when a member has double coverage. Its total is a contra liability of $7,875,271.

The contra liability item "Reinsurance Ceded" of $1,219,208 consists of recoveries from the ACA and Oregon reinsurance programs.

Mr. Ball concurs with the latter three quantities but not with the company's estimate of the Regular IBNR. Since their estimate for Regular IBNR is $40,440,921, the estimate for total Claims Unpaid is $60,725,481. Because his estimate for Regular IBNR is larger than the Plan, his estimate for total Claims Unpaid is also larger, totaling $72,835,172. So the company's Claims Unpaid figure is deficient by about 16.6%. The examiner acquired the hospital IBNR payable noted in the intercompany account and agreed the $42,764,958 balance was recorded in the financials of the Plan. In addition, hindsight of paid claims to hospital for 2016 and prior reflected a lower amount. This supports the rationale provided by the Plan and he acknowledged the deficiency had no impact on the health plan.

This unpaid claims adjustment expenses liability represents the estimated cost of processing claims not yet paid. This figure is often estimated using a percentage of claims unpaid, and 3% to 4% is an average for our domestic carriers. The company uses a methodology that gives an adjustment expense of 3.3% of Regular IBNR, or 2.2% of Claims Unpaid. Since Mr. Ball's estimate of Claims Unpaid showed a deficiency, he increased Unpaid Claims Adjustment Expenses in proportion, giving the amount of $1,583,051.

Mr. Ball concurred with the aggregate health policy reserves amount presented by the Plan. This included the ACA risk adjustment and CMS Medicare risk sharing obligations. Any premium deficiency reserve (PDR) would go into this total. The company did an analysis based on their financial forecast and ten months of actual data plus two months projected, and found that no PDR appears to be needed.

There is an actuarial asset of $9,811,569, representing the amount owed to the company by CMS for the ACA risk adjustment program. In the statement, it is included, along with other items, in line 15.3 of the Assets page, called "accrued retrospective premiums".

Despite the total deficiency of $12,372,899 in the Claims Unpaid and Unpaid Claims Adjustment Expenses, there is no doubt as to the company's solvency at the end of 2016. The total capital and surplus make up about 34.3% of total assets, and the deficiency makes up only 2.6% of capital. Furthermore, as explained above, the Claims Unpaid deficiency has no net impact on the Health Plan.

Note 4 – Aggregate Write-Ins For Other Liabilities: Pension; Post Retirement

As noted in the Pension and Post Retirement Benefit section above, the Plan was required to amortize specific unrecognized items into net periodic post-retirement and pension costs pursuant to SSAP No. 92 and No. 102. Any offset to unassigned funds is required to be reported separately as an "Aggregate Write-in for Other Liability" in the financial statements. The required SSAP No. 92 and No. 102 obligations have been fully recorded since 2015. At December 31, 2016, the Plan reported a liability of $122,134,481 million for post-retirement benefit plans and $385,611,390 for its defined benefit retirement plans. These two amounts represent $507.7 million of the $528.3 million aggregate write-in for other liability balance as of December 31, 2016.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments to surplus as a result of this examination, and the examiners made no recommendations in this report of examination.

CONCLUSION

During the three year period covered by this examination, the surplus of the Plan has decreased from $480,142,101, as presented in the December 31, 2013, report of examination, to $479,915,231, as shown in this report. The comparative assets and liabilities are:

	December 31, 2016	December 31, 2013	Change
Assets	$ 1,399,374,261	$ 1,216,487,332	$ 182,886,929
Liabilities	919,459,030	736,345,231	183,113,799
Surplus	$ 479,915,231	$ 480,142,101	$ (226,870)

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, information technology specialist, Michael P. Phillips, CPA, CFE, AES, Colette Sawyer, CFE, CPM, MSA, Risk & Regulatory Consulting, LLC, and co-examiner in charge, Tho Le, Brandon Lau, and Khoa Nguyen, examiners, and David N. Ball, FSA, MAAA, life and health actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, Insurance, participated on this examination.

Respectfully submitted,

Joseph A. Rome CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Joseph A. Rome, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Kaiser Foundation Health Plan of the Northwest, 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 Kaiser Foundation Health Plan of the Northwest was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Joseph A. Rome, CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 20th day of December, 2017.

Notary Public for the State of Oregon

My Commission Expires: 10/26/2021

OFFICIAL STAMP
STEPHANIE F OLLIS
NOTARY PUBLIC - OREGON
COMMISSION NO. 967810
MY COMMISSION EXPIRES OCTOBER 26, 2021