STATE OF OREGON

DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

PACIFICSOURCE COMMUNITY HEALTH PLANS
SPRINGFIELD, OREGON

AS OF

DECEMBER 31, 2017

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NAIC COMPANY CODE 12595

AS OF

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TABLE OF CONTENTS

SALUTATION

May 13, 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

PACIFICSOURCE COMMUNITY HEALTH PLANS
110 International Way
Springfield, Oregon 97477

NAIC Company Code 12595

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

SCOPE OF EXAMINATION

We have performed our regular, full-scope examination of PacificSource Community Health Plans. The examination was conducted in conjunction with the examination of a parent health care service contractor, PacificSource Health Plans, and a separate report of examination will be prepared for that entity. The last examination of this health care service contractor was completed as of December 31, 2013. This examination covers the period of January 1, 2014, 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

The Plan was founded as the Central Oregon Independent Health Systems on June 5, 1995, by Central Oregon Independent Practice Association (COIPA) and Central Oregon Hospital Network (CoNET) to administer a fully capitated contract for the Oregon Health Plan through the Division of Medical Assistance Programs (now the Oregon Health Authority). On April 24, 1998, the Plan received a certificate of authority as a for-profit health care service contractor pursuant to ORS Chapter 750, at which time it was qualified by the Centers for Medicare and Medicaid Services (CMS) as one of the first Provider Sponsored Organization in the nation to write Medicare+Choice business. Beginning in 2001, the Plan expanded its operations and began offering commercial health plans in the large-group employers market, expanding into small-group employers in 2004.

On January 26, 2010, PacificSource Health Plans filed a Form A with the Oregon Department of Consumer and Business Services (DCBS), Division of Financial Regulation (DFR) to acquire the Plan and its subsidiaries. The acquisition was approved by Order on March 17, 2010, and on May 21, 2010, the Plan became a wholly owned direct subsidiary of PacificSource. On January 28, 2011, the Plan amended it Articles to change its name to PacificSource Community Health Plans. On December 31, 2014, the Plan converted to a not-for-profit health care service contractor under ORS Chapter 750.

Capitalization

The Plan has no capital stock, and no gross paid-in or contributed surplus was reported by the Plan. During the period under examination, the Plan's surplus was comprised entirely of unassigned funds. The Plan has one member, PacificSource Health Plans, an Oregon non-profit health care service contractor.

Dividends to Stockholders and Other Distributions

During the period under examination, the Plan did not declare or pay any dividends or made any distributions to its direct parent.

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 described the actions taken by its directors. A quorum, as defined in the Plan's Bylaws, met at all of the meetings held during the period under review.

The Plan's Bylaws, under Article II, authorize the Board to create one or more committees. The examiners reviewed the minutes and charters of six committees that oversee and support the PacificSource Group; an Audit and Compliance Committee, an Executive Committee, a Finance Committee, a Board Governance Committee, and a Talent Management and Compensation Committee.

The minutes indicated the Board directly approves the CEO's compensation through an executive session of the Board and indirectly approves the compensation of senior executives through approval of an annual budget. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan's restated Articles of Incorporation were most recently amended on August 12, 2014, to make the Plan to a non-profit corporation. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

Effective October 17, 2016, the Plan's Corporate Bylaws were amended and restated to reflect the partnership with Legacy Health and the subsequent participation on the Board of Directors of both Pacific Health Associates and Legacy Health designees, which are appointed to the PacificSource Board of Directors and then that Board appoints those individuals to the Plan's Board. Article II of the Plans' corporate Bylaws state the number of directors shall be no less than five (5) members and no more than fifteen (15) members. Not fewer than two directors or one-third of the directors, whichever is greater, shall be public representatives who are not practicing doctors or employees or trustees of a participant hospital. A majority of the directors shall not be salaried officers of the Plan. Each Director shall hold office until the annual meeting of PacificSource in which his or her term expires or until his or her successor is elected and qualified or until death, resignation or removal. A quorum of the Board of Directors shall consist of at least two-thirds of the number of directors in office immediately before the meeting begins. A quorum shall not be met unless at least three representatives from Pacific Health Associates designees and three representatives from the Legacy Health designees are present at any given meeting of the Board. The Plan's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article III, state the business and affairs of the corporation shall be managed by the Board of Directors. The number of directors shall consist of no fewer than five (5) members and no more than fifteen (15) members, the specific number to be set by the Board. Members of the Board of Directors as of December 31, 2017, were:

Name and Address	Principal Affiliation	Representative	Member Since
Jeffrey Bruce Barber Austin, Texas	Executive Consultant The Pace Group	Public	2016
Robert Wells Bentley Portland, Oregon	Physician EyeHealth Northwest	Physician	2016
George Joseph Brown Portland, Oregon	President & CEO Legacy Health	Physician	2016
Edwin Dahlberg * Boise, Idaho	Retired	Public	2014
Ronald King Portland, Oregon	Retired	Public	2016
Roger M. Saydack Eugene, Oregon	Chief Operating Officer & VP Peace Health	Physician	2014
Patricia Schmitt Redmond, Oregon	Retired	Public	2012
Divya Sharma Bend, Oregon	Chief Medical Director Central Oregon Independent Practice Association, Inc.	Physician	2012
Claire Spain-Remy Lakewood, Washington	Retired	Public	2017
David Vinson Austin, Texas	President & CEO World Doc/Social Wealth, Inc.	Public	2017

Name and Address	Principal Affiliation	Representative	Member Since
Mark Werner Minneapolis, Minnesota	Medical Director The Charles Group	Physician	2017
Charles Allen Wilhoite Portland, Oregon	Managing Director Willamette Management Assoc.	Public	2016
John Wesley Winter, Jr. Newport, Oregon	Chief Financial Officer ZAPS Technologies	Public	2016
Richard Lee Wright Eugene, Oregon	President and CEO Market of Choice	Public	2014

*Chairman

The Plan is in compliance with ORS 750.015(1).

Officers

Principal officers serving at December 31, 2017, were as follows:

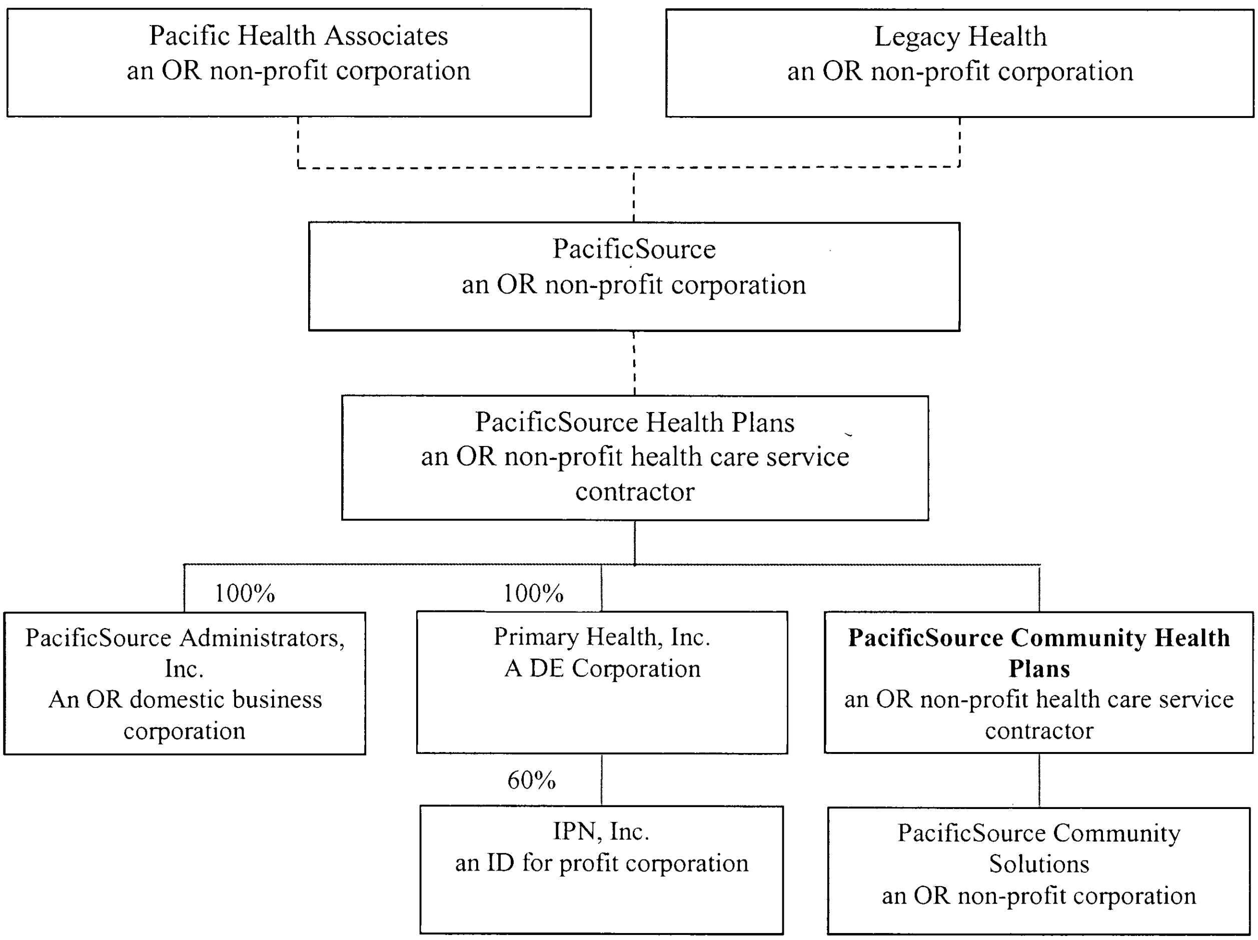
Name	Title
Kenneth P. Provencher	President and Chief Executive Officer
Kristin E. Kernutt	Secretary VP Legal Affairs & General Counsel
Peter F. Davidson	Executive VP and Chief Financial Officer
Erick T. Doolen	Executive VP and Chief Operating Officer
Daniel Roth	Executive VP and Chief Medical Officer
Daniel Stevens	Executive VP and Oregon Regional Director
Sharon Thomson	Executive VP Community Strategy & Marketing

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 statements, the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

__Insurance Company Holding System__

An insurance holding company registration statement was filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following organizational chart shows the relationship between the related entities of the Plan:



A description of each of the entities above is as follows:

Legacy Health is an Oregon public benefit corporation formed on November 4, 1970. It was formed as a 501(c)(3) organization to be operated, supervised, or controlled by the following nonprofit corporations; Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Mount Hood Medical Center, Legacy Meridian Park

Hospital, Silverton Health, Legacy Visiting Nurse Association, and Legacy Salmon Creek Hospital. Legacy Health appoints six board members of PacificSource and is a controlling entity.

Pacific Health Associates is an Oregon public benefit corporation with no members formed on December 16, 2015. It also appoints six board members of PacificSource and is a controlling entity.

PacificSource, an Oregon non-profit public benefit corporation, was formed on July 1, 2013, under Chapter 65 of the Oregon Revised Statutes to act as the holding company for the insurance group. It is the management company for the group and maintains all the employees and operational assets. It is the sole member of two direct subsidiaries:

PacificSource Health Plans is an Oregon domiciled non-profit health care service contractor and is the sole member of the Plan, and would be considered the direct parent. It also owns 100% of the following entities:

PacificSource Administrators, Inc. (PAI), an Oregon domestic business corporation formed on December 31, 2002, is a third-party administrator formed by the acquisition of Manley Services, Select Benefit Administrators, and Riverside Benefit Administrators. It specializes in reimbursement administration of Flexible Spending Accounts (FSA), Health Reimbursement Account (HRA) plan management, and COBRA administration.

Primary Health, Inc. (PHI), is a Delaware stock corporation formed on November 20, 1997, as a holding company for Primary Health Network, Inc., an Idaho domiciled life insurer which was merged into PacificSource Health Plans effective December 31, 2009.

IPN, Inc. is an Idaho for-profit corporation owned 60% by PHI and 40% by other investors, none of whom owns or controls the company. IPN is a provider network for some of Idaho's largest health plans including United HealthCare, Aetna, Cigna, and Great West Health Plans. IPN was incorporated on July 6, 1993, and now works with 75 national and regional based insurance companies, third-party administrators, as well as local and state insurers.

PacificSource Community Solutions (PCS) is an Oregon non-profit corporation, in which the Plan is the sole member. It qualified as a Coordinated Care Organization (CCO) providing Oregon Health Plan coverage to individuals with limited income and assets.

Intercompany Agreements

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

Administrative Services Agreement

Effective December 31, 2013 and amended on January 1, 2014; January 1, 2015; January 1, 2016; September 1, 2016; and again on January 1, 2017, PacificSource agrees to provide the Plan with the following services: executive oversight; data processing, management and storage services; claims processing services; accounting and financial management services and support; office equipment and furniture; legal services; marketing services and support; sales services and support; administrative services; health services support; provider network support; actuarial, underwriting and analytics services; internal audit services; compliance resources; and other services as mutually agreed upon by the parties. The agreement calls for the Plan to pay a fixed monthly amount, payable on or before the 15th of each month, however, if calendar year expenses incurred by PacificSource to provide the services exceeds the budgeted amount at the time the parties determined the Base Monthly Fee, the excess amount can be paid on a quarterly or annual basis as PacificSource determines, within 30 days after PacificSource provides the Plan an invoice or accounting for the amount together with supporting documentation for the invoice.

Tax Allocation Agreement

Effective December 31, 2013 an Agreement was entered into between PacificSource, the Plan, PacificSource Health Plans, PacificSource Administrators, Primary Health, Inc., and PacificSource Community Solutions. The agreement requires all subsidiaries to pay PacificSource the portions of the tax liability related to them. All tax payments are to be settled within 90 days of filing the tax return. Subsidiaries are also required to advance to PacificSource amounts necessary to reimburse PacificSource for its portion of estimated federal income tax payments related to the subsidiary on an interim basis within 30 days of receiving notice of amount due. After filing the consolidated income tax return, if the allocated tax of a subsidiary exceeds the estimated tax, subsidiaries are required to pay PacificSource the excess amount. If estimated tax exceeds the allocated tax, PacificSource shall reimburse the excess back to the subsidiary.

License Agreement

Effective January 1, 2014, an agreement was entered into between PacificSource and its subsidiaries granting a non-exclusive, nontransferable, license to use the PacificSource service mark (Mark). The Plan, PacificSource Health Plans, PCS, and PSA agreed not to further license or assign the rights provided under the Agreement to any entities without the express, written consent of PacificSource. All listed subsidiaries agree that PacificSource is the owner of the Mark, and that all use of the Mark shall inure to the benefit of PacificSource and further agree that it has no rights, title or interest in the Mark other than the right to use the Mark per the terms of the

Agreement. No license fee was charged for the use of the Mark. Mark will be used in the ordinary course of business and will be monitored by PacificSource.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits, retentions, and the solvency of the insurers providing the coverages. The insurance coverages are provided through insurance policies issued by unaffiliated carriers. Coverage protected the Plan and all affiliate and subsidiary companies as a named insured. The group as a whole is insured up to $10,000,000 per occurrence, after a $10,000 deductible per single loss, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage met the minimum coverage recommended by the NAIC.

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

Commercial property	Managed care errors and omissions
Crime coverage	Director's and officer's liability
Commercial auto	Fiduciary
Umbrella/catastrophe liability	Employed lawyers liability
General liability	Cyber liability

TERRITORY AND PLAN OF OPERATION

The Plan has Certificates of Authority in the States of Idaho, Montana, Oregon and Washington. The Plan is a HMO/PPO health insurer with a Medicare contract. It offers Medicare Advantage plans, with and without Part D prescription drug coverage, in Oregon and Idaho.

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

Line of Business	2017	2016	2015	2014	2013
Indiv. hospital & medical	-	-	-	-	-
Group hospital & medical	-	-	-	-	7
Medicare supplement	-	-	-	-	-
Dental	-	-	-	-	-
Medicare	34,966	38,054	34,051	38,901	36,500
Other	-	-	-	-	-
Total enrollment	34,966	38,054	34,051	38,901	36,507

In 2017, the Plan reported direct business in the following states:

State	Direct Premiums Written
Idaho	$ 184,197,756
Montana	-
Oregon	171,569,948
Washington	-
Total	$ 355,767,707

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 annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

Year	Assets	Liabilities	Capital and Surplus	Net Income (Loss)
2013 *	78,810,779	37,340,975	41,469,805	(6,603,242)
2014	100,775,605	49,742,395	51,033,211	(5,626,786)
2015	101,568,324	42,309,446	59,258,878	4,198,365
2016	123,122,115	56,728,996	66,393,119	5,488,636
2017 *	123,408,029	52,028,920	71,379,109	26,982,846

*Per examination

LOSS EXPERIENCE

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

Year	(1) Total Revenues	(2) Total Hospital and Medical	(2)/(1) Medical Loss Ratio	(3) Claim Adjustment and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2013 *	$ 300,412,124	$ 281,783,363	93.8%	$ 27,169,544	102.8%
2014	328,184,671	297,998,347	90.8%	36,640,443	102.0%
2015	301,102,396	278,842,550	92.6%	30,820,583	102.8%
2016	345,070,799	308,465,134	89.4%	41,668,855	101.5%
2017 *	357,195,425	311,952,580	87.3%	41,702,844	99.0%

*Per examination

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss. The Plan reported underwriting losses in four of the last five years.

REINSURANCE

At December 31, 2017, the Plan was covered by an HMO Specific Excess Loss Reinsurance agreement with PartnerRe America Insurance Company (NAIC #11835, authorized in Oregon since December 22, 1981). Under the policy, the reinsurer reimbursed the Plan for unlimited losses per member for each individual risk, after retention of $400,000. It was determined the reinsurance agreement clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. The agreement did not contain a settlement clause as required by OAR 836-012-0310.

I recommend the Plan amend its ceded reinsurance agreements with PartnerRe America Insurance Company to include a settlement clause pursuant to the provisions of OAR 836-012-0310.

In view of the Plan's reported surplus of $71,379,109 at December 31, 2017, it appears the Plan does not maintain risk on any one subject in excess of ten percent of its surplus to policyholders, 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. However, at December 31, 2017 the Plan failed to disclose its 50% member interest partnership with Legacy Health effective September 1, 2016 in its filed Annual Statement pursuant to the provisions of ORS 732.548 through ORS 732.572. During exam fieldwork, the Plan filed the December 31, 2018 Annual Statement, which properly disclosed Legacy Health in Schedule Y – Part 1.

STATUTORY DEPOSIT

The Plan reported $1,771,738 in three US Bank CDs held on deposit for the Idaho Department of Insurance, for the benefit of all policyholders. The deposit was verified from the records of the Oregon Division of Financial Regulation, as the Plan is holding the deposit with the Division at the request of the Idaho Department of Insurance. The deposit was properly listed in the 2017 annual statement on Schedule E – Part 3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations made as a result of the 2013 report of examination and no adjustments were made to surplus.

SUBSEQUENT EVENTS

The Plan began writing Medicare business in Washington during 2018 and 2019 by partnering with Multi-Care System in Pierce and Spokane counties and with Legacy Health in Clark County. It has also expanded its presence in the Portland market since the Legacy merger.

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

PACIFICSOURCE COMMUNITY HEALTH PLANS
ASSETS
As of December 31, 2017

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 26,228,326	$ -	$ 26,228,326	1
Common stocks	44,191,699	-	44,191,699	1
Cash, cash equivalents and short-term investments	21,937,883	-	21,937,883	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	92,357,908	$ -	92,357,908	
Investment income due and accrued	170,426	-	170,426	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	736,540	-	736,540	
Accrued retrospective premiums and contracts subject to redetermination	14,171,000	-	14,171,000	
Reinsurance				
Amounts recoverable from reinsurers	720,303	-	720,303	
Other amounts receivable under reinsurance contracts	3,958	-	3,958	
Amounts receivable related to uninsured plans	6,775,005	-	6,775,005	
Current FIT recoverable	300,000	-	300,000	
Receivable from parent, subsidiaries and affiliates	1,150,262	-	1,150,262	
Health care and other amounts receivable	6,289,256	-	6,289,256	2
Aggregate write-ins for other than invested assets	,733,372	-	733,372	3
Total Assets	$ 123,408,029	$ -	$ 123,408,029	

PACIFICSOURCE COMMUNITY HEALTH PLANS
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2017

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$ 41,032,546	$ -	$ 41,032,546	4
Accrued medical incentive pool and bonus amounts	4,371,666	-	4,371,666	4
Unpaid claims adjustment expense	928,131	-	928,131	4
Aggregate health policy reserves	1,871,763	-	1,871,763	4
Premiums received in advance	549,218	-	549,218	
General expenses due or accrued	803,804	-	803,804	
Ceded reinsurance premiums payable	39,719	-	39,719	
Liability for amounts held under uninsured plans	2;281,000	-	2,281,000	
Aggregate write-ins for liabilities	151,073	-	151,073	
Total Liabilities	$ 52 028,920	$ -	$ 52,028,920	
Aggregate write-ins for special surplus funds	$ -	$ -	$ -	
Gross paid-in and contributed capital	-	-	-	
Unassigned funds (surplus)	71 379,109	-	71,379,109	
Surplus as regards policyholders	$ 71 379,109	-	$ 71,379,109	
Total Liabilities, Surplus and other Funds	$ 123,408,029	$ -	$ 123,408,029	

PACIFICSOURCE COMMUNITY HEALTH PLANS
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	$ 355,307,758	$ -	$ 355,307,758	
Change in unearned premium reserves and reserves for rate credits	1,887,667	-	1,887,667	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenue	357,195,425	-	357,195,425	
Hospital and Medical:				
Hospital/medical benefits	246,658,861	-	246,658,861	
Other professional services	9,087,958	-	9,087,958	
Outside referrals	17,150,545	-	17,150,545	
Emergency room and out-of-area	4,957,596	-	4,957,596	
Prescription drugs	30,754,485	-	30,754,485	
Incentive pool, withhold adjustments and bonus amounts	2,599,894	-	2,599,894	
Subtotal	311,209,340	-	311,209,340	
Less:				
Net reinsurance recoveries	(743,240)	-	(743,240)	
Total medical and hospital	311,952,580	-	311,952,580	
Non-health claims	-	-	-	
Claim adjustment expenses	17,571,242	-	17,571,242	
General administrative expenses	24,131,602	-	24,131,602	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	353,655,424	-	353,655,424	
Net underwriting gain or (loss)	3,540,000	-	3,540,000	
Net investment income earned	21,238,729	-	21,238,729	
Net realized capital gains (losses)	180,403	-	180,403	
Net investment gains (losses)	21,419,132	-	21,419,132	
Net gain or (loss) from agents' or premium balances charged off	(61,254)	-	(61,254)	
Aggregate write-ins for other income or expense	-	-	-	
Federal income taxes incurred	(2,084,968)	-	(2,084,968)	
Net income	$ 26,982,846	$ -	$ 26,982,846	

PACIFICSOURCE COMMUNITY HEALTH PLANS
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	$ 66,393,119	$ 59,258,878	$ 51,033,210	$ 41,469,805
Net income (loss)	26,982,846	5,488,636	4,198,365	(5,626,786)
Change in net unrealized capital gains or (losses)	(11,422,245)	1,359,420	4,918,355	11,737,118
Change in net deferred income tax	(603,000)	(95,000)	52,000	(66,000)
Change in non-admitted assets	(9,971,611)	(393,043)	(943,053)	519,073
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	3,000,000
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	774,227	-	-
Change in surplus as regards policyholders for the year	4,985,990	7 134,241	8,225,667	9,563,405
Surplus as regards policyholders, December 31, current year	$ 71,379,109	$ 66,393,119	$ 59,258,878	$ 51,033,210

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2017, the Plan's long-term bond investments were in US obligations, US federal agency bonds, municipal obligations, and corporate issues. The Plan did have a moderate exposure to mortgaged-backed (MBS) and asset-backed securities (ABS). All of the MBS/ABS issues were investment rated at year-end 2017, with a carrying book value of $8.5 million comprising 32.3% of the total long-term bond portfolio, and 12.1% of all invested assets.

Common stocks included the equity in one wholly owned subsidiary, PacificSource Community Solutions, with a book value of $35.8 million. The remaining investments represents the book value of 17 separate mutual funds.

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

	A	B	C	Ratio	Ratio	Ratio
Year	Bonds	Common Stocks	Cash and Short-term	A/ Total Assets	B/ Total Assets	C/ Total Assets
2013*	16,493,507	33,223,871	10,678,220	20.9%	42.2%	13.5%
2014	12,701,090	45,547,136	8,951,342	12.6%	45.2%	8.9%
2015	3,469,795	46,295,184	26,317,773	3.4%	45.6%	25.9%
2016	16,955,662	47,644,788	33,240,670	13.8%	38.7%	27.0%
2017*	26,228,326	44,191,699	21,937,883	21.3%	35.8%	17.8%

* Balance per examination

As of December 31, 2017, sufficient invested 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.

A review of Board of Director and Committee minutes did not indicate the Board nor any authorized committee approved the investment transactions in any of the years under examination, in violation of ORS 733.730. The Plan uses Wells Capital Management to provide investment advisory services, including actively managing both fixed and equity portfolios in accordance with the Plan's investment policy.

I recommend the Plan have the Board of Directors approve all investment transactions on a regular basis, and that a formal resolution be voted on by the Board at each meeting, pursuant to ORS 733.730.

Effective February 10, 2010, the Plan entered into a custodial agreement with Wells Fargo Bank N.A. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Healthcare Receivables

The Plan reported healthcare receivables comprised entirely of pharmacy rebates, which are settled with the pharmacy benefits manager (Caremark) quarterly. SSAP 84 paragraph 10b states pharmacy rebates that have not been collected within 90 days of the invoice or confirmation date shall be non-admitted. For the 4th quarter 2017, the Plan estimated a receivable of $2,988,207, plus a true-up amount of $1,166,438, however, it only received a payment of $3,010,080 by the end of March 2018, leaving a difference of $1,144,565. The difference was above tolerable error but below exam planning materiality. As a result, an examination adjustment was not made.

Note 3 – Goodwill

In conjunction with the acquisition completed on March 17, 2010, PacificSource purchased the common capital stock of the Plan. Included in the purchase price was $5,346,621 recognized as Goodwill, of which the Plan retained $3,073,258 as a write-in asset. This goodwill will be amortized using a straight-line method until May 21, 2020. During 2017, the Plan amortized $223,436 pursuant to the provisions of SSAP No. 68, paragraph 7, for a total remaining balance at year-end of $733,372. There was no impairment recognized by the Plan during the period under examination.

Note 4 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by Michael Sink, ASA, MAAA, life and health actuary for the Oregon Division of Financial Regulation. As part of his review, he examined the supporting statements prepared by Mark Florian, FSA, MAAA, Vice President, Actuarial and Underwriting, in preparation of the Statement of Actuarial Opinion as of December 31, 2017.

Mr. Sink reviewed the reconciliation of the data used in the Plan's financial statement 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	$41,032,546	$41,032,546
Accrued Medical Incentive Pool and Bonus Payments	4,371,666	4,371,666
Unpaid Claims Adjustment Expenses (CAE)	928,131	928,131
Aggregate Health Policy Reserves	1,871,763	1,871,763
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	$48,204,106	$48,204,106

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of December 31, 2017 were reasonable. Mr. Sink's total estimate agreed to the appointed actuary's estimate. He concurred that the reserves of the Plan were reasonably stated as of December 31, 2017.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Plan's surplus, however, the following is a summary of the recommendations made in this report of examination:

Page

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

24 I recommend the Plan have the Board of Directors approve all investment transactions on a regular basis, and that a formal resolution be voted on by the Board at each meeting, pursuant to ORS 733.730.

CONCLUSION

During the four-year period covered by this examination, the surplus of the Plan has increased from $41,469,805 as presented in the December 31, 2013, report of examination, to $71,379,109, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	2017	**2013**	**Change**
Assets	$ 123,408,029	$ 78,810,779	$ 44,597,250
Liabilities	52,028,920	37,340,975	14,687,945
Surplus	$ 71,379,109	$ 41,469,804	$ 29,909,305

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, Tho Le, AFE, AFE, Maanik C. Gupta, Michael P. Phillips, CFE, CPA, AES, insurance examiners, and Michael Sink, ASA, MAAA, Life & Health Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination.

Respectfully submitted,

Mark A. 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 PacificSource Community Health Plans, Springfield, 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 PacificSource Community Health Plans 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
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 1st day of July, 2019.

Lauren N. Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

OFFICIAL STAMP
LAUREN NICOLE BODINE
NOTARY PUBLIC - OREGON
COMMISSION NO. 970483
MY COMMISSION EXPIRES JANUARY 22, 2022