

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



REPORT OF FINANCIAL EXAMINATION

OF

**PIONEER EDUCATORS HEALTH TRUST  
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2016

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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PORTLAND, OREGON**

**NAIC COMPANY CODE 12619**

AS OF

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**SALUTATION**

April 25, 2018

Honorable Andrew Stolfi, Commissioner  
Department of Consumer and Business Services  
Division of Financial Regulation  
State of Oregon  
350 Winter Street NE  
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300, ORS 731.302, and ORS 750.327, respectively, we have examined the business affairs and financial condition of

**PIONEER EDUCATORS HEALTH TRUST**  
**700 NE Multnomah Street, Suite 1300**  
**Portland, Oregon 97232**

**NAIC Company Code 12619**

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

## SCOPE OF EXAMINATION

We have performed our regular, full-scope, single state examination of Pioneer Educators Health Trust. The last examination of this Oregon domestic Multiple Employer Welfare Arrangement (MEWA) covered the period from January 1, 2011 through December 31, 2013. This examination covers the period of January 1, 2014 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 Trust, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Trust's surplus to be materially misstated, both currently and prospectively.

All accounts and activities of the Trust 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 Trust's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the Trust 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 Trust.

## COMPANY HISTORY

The Trust was created by the Oregon Independent Colleges Association on July 1, 2002, as a Voluntary Employers Beneficiary Association under the provision of Section 501(c)(9) of the 1986 IRC Code and is subject to the Employee Retirement Income Security Act of 1974 (ERISA) as well as the Oregon Insurance Code. It received a Certificate of Authority in Oregon on April 14, 2003, under the name Oregon Independent Colleges Employee Benefit Trust and began to write business effective May 1, 2003. The Trust was formed to provide health and welfare benefits to employees of participating colleges that are members of the sponsor. In August, 2011, the sponsor changed its name to Oregon Alliance of Independent Colleges and Universities (OAICU). The Trust changed its name to its current name, Pioneer Educators Health Trust, effective April 1, 2006.

The Trust writes full medical and dental insurance on a group basis for the independent colleges/universities who are members in the Association. Currently, five of the seventeen eligible members of OAICU participate in the Trust: George Fox University; Lewis & Clark College; Linfield College; Pacific University; and Reed College.

### Capitalization

ORS 750.309(3) requires the Trust maintain capital and surplus of not less than \$250,000 or an amount equal to 35% of incurred claims for the preceding 12 month period, whichever is greater. However, this required amount may not be more than \$500,000. As of December 31, 2016, the Trust's capital and surplus was \$1,495,124, which complies with the statute.

However, pursuant to a 2016 Stop Loss Reinsurance Agreement with Regence BlueCross/BlueShield of Oregon, the Trust is required to maintain a minimum capital and surplus of \$1,000,000. The Trust's Capital and Surplus as of December 31, 2016, complied with the Stop Loss Reinsurance Agreement.

### **Dividends and Other Distributions**

Under the IRC Code, Section 501(c)(9), the Trust's earnings may not benefit any private individual, organization, or shareholder other than through the payment of benefits. The Trust did not pay any dividends or make any distribution during the period under examination.

## **CORPORATE RECORDS**

### **Board of Trustee Minutes**

The Trustees meet quarterly to discuss large claims, reinsurance coverages, and other matters relating to the Trust and to review its financial statements. A review of the Board of Trustee minutes showed adequate detail which supported the activities of the Trust. A quorum was present at all meetings. The Trustees also reviewed and approved the Investment Committee Report quarterly, which detailed investment transactions executed during the quarter in accordance with the provisions of ORS 733.730.

### **Trust Agreement**

The Trust has neither Articles of Incorporation nor Bylaws. Instead, the Amended and Restated Trust Agreement, effective September 1, 2012, defines its purpose and sets forth the rights and responsibilities of its trustees, employers, employees, and beneficiaries with respect to the MEWA. The Trust Agreement also allows the Trustees to establish one or more Trustee Committees to which the Trustees may delegate any of their rights, powers, duties, and responsibilities with respect to the Trust.

The Investment Committee is responsible for executing investment transactions, reviewing and approving the investment policy annually, communicating the policy to brokers and investment advisory firms, managing liquidity, and for reporting investment performance, account balance and asset allocation to the Board of Trustees at least bi-annually. A review of the Investment

Committee minutes showed adequate detail which supported the activities of the Trust, including a detailed review of the Trust's investment portfolio at every meeting.

## MANAGEMENT AND CONTROL

### Trustor

The Trustor is the Oregon Alliance of Independent Colleges and Universities (OAICU), an Oregon corporation registered to do business in Oregon as of December 30, 1960. The Trustor's principal activity is to develop and promote cooperative programs and activities that further academic excellence and enhance educational opportunity among member institutions and throughout higher education in Oregon.

Membership in the OAICU is open to Oregon-based regionally-accredited nonprofit institutions. All seventeen eligible institutions are members. OAICU's Board is composed of the presidents of the member institutions. The OAICU is a 501(c)(3) corporation and is funded through a combination of member dues and outside grants.

### Trustees

Management and control of the Trust is vested in a five member Board of Trustees. The Trust Agreement designates that each Sponsoring Employer that is a postsecondary educational institution shall appoint one Trustee. The Trustee serves until their resignation, removal, incapacity or death. A Trustee may be removed at any time by action of the Sponsoring Employer (appointing college/university). Appointed trustees serving at December 31, 2016 were as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Theodore Edward Allen Newberg, Oregon	Executive VP and Chief Operations Officer George Fox University	October, 2015

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Lorraine Janette Arvin Portland, Oregon	VP and Treasurer Reed College	May, 2014
Kevin Wayne Brubaker Salem, Oregon	Business Manager & VP Corban University	January, 2015
Kathleen Ann Cannon Portland, Oregon	Director of Human Resources University of Western States	April, 2016
Alan Thomas Finn * Portland, Oregon	VP for Business and Finance, Treasurer Lewis & Clark College	October, 2015
Michael David Mallery Portland, Oregon	VP Finance and Administration Pacific University	October, 2014
Mary Ann Rodriguez McMinnville, Oregon	VP Finance & Administration, CFO Linfield College	January, 2014

\*Chairman

Under Oregon law, ORS 750.317(1), at least 50% of the trustees shall be persons who are covered under the multiple welfare arrangement. A trustee may not be an owner, officer or employee of a third party administrator who is licensed pursuant to ORS 744.700 to 744.740 and provides services to a multiple employer welfare arrangement. The Trust was in compliance with ORS 750.317(1).

### Officers

Principal officers appointed by the trustees and serving at December 31, 2016 were as follows:

<u>Name</u>	<u>Title</u>
Alan Thomas Finn	Chairperson
Mary Ann Rodriguez	Treasurer

### CONFLICT OF INTEREST

The Trust has a Standard of Conduct policy and form that every Trustee must sign annually. Within the form is a statement regarding disclosing any potential conflicts of interest. From a

review of the completed conflict of interest questionnaires, the Trust's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

### **INSURANCE HOLDING COMPANY REGISTRATION STATEMENT**

The Trust is not part of a holding company system and therefore is not required to file the insurance holding company registration statements in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020.

#### **Agreements**

##### **Third Party Administration Agreements**

The Trust uses USI Northwest as the Plan Administrator for the Trust. USI Northwest handles all services necessary to comply with applicable laws and to properly administer the benefits provided by the Trust. It performs all administrative services required, and is responsible for the day-to-day operations of the Trust. The Trust and USI Northwest did not have a formal contract in place to provide the services described during the period under examination as required by ORS 750.309(1). Subsequent to the examination date, on April 1, 2017, the Trust entered into an Employee Benefit Service Agreement with USI Northwest, thus a formal recommendation will not be made.

Additionally, the Trust has signed an administrative service agreement with Cypress Benefit Administrators. Cypress provides regulatory and financial accounting services for the Trust, including preparation of required filings and accounting records, facilitating annual CPA audits and triennial examinations, and all other services necessary to comply with applicable laws and to properly administer the benefits provided by the Trust. In return the Trust pays Cypress direct costs and a monthly per-employee administrative fee.

### Administrative Services Contract

Effective April 1, 2010, the Trust entered into an Administrative Service Contract with Regence BlueCross BlueShield of Oregon (Regence BCBSO) to obtain certain ministerial administrative services, including claims processing and premium billing. The agreement automatically renews annually, unless terminated by giving 30 days written notice by either party.

### **FIDELITY BONDS AND OTHER INSURANCE**

The examination of insurance coverages included a review of the adequacy of limits and the amount of risk retained by the Trust. The solvency of the insurers providing the coverages was also reviewed. The Labor Management Trust Fiduciary Liability policy issued by Chubb insures the Trust against losses from employee wrongful acts for up to \$1,000,000. The fidelity coverage met the suggested limits prescribed by the NAIC and complies with ORS 750.318(3).

Other coverages in force at December 31, 2016, were found to be adequate, as follows:

Directors and officers liability	Employee Theft
Business liability	

### **TERRITORY AND PLAN OF OPERATION**

The Trust operates as a Multiple Employer Welfare Association that serves the private, nonprofit colleges and universities in the state of Oregon. The Trust writes full medical and dental insurance on a group basis for the independent colleges and universities who are members in the Association. This includes a PPO Plan to its institution members that covers individuals and all eligible family members. The eligibility for benefit coverage is determined individually by each institution.

The comprehensive plan offers hospital and medical services that includes primary care, diagnostic care, prescription drug coverage, outpatient surgery, emergency and urgent care services, hospitalization, in-patient and out-patient mental health services and substance abuse

treatment, rehabilitation, habilitation and hospice services, pregnancy and prenatal care, some alternative care options, and durable medical equipment. It also offers a dental only plan. The Trust plan is not highly marketed as it is only sold to current member institutions. The Trust uses the Guide to Benefits to market and describe its plan.

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

<b>Line of Business</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Group hospital & medical	2,532	3,396	3,216	3,180	3,183
Dental Only	<u>2,533</u>	<u>3,499</u>	<u>3,493</u>	<u>3,558</u>	<u>3,604</u>
Total enrollment	<u>5,065</u>	<u>6,895</u>	<u>6,709</u>	<u>6,738</u>	<u>6,787</u>

### **GROWTH OF THE COMPANY**

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

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Surplus and Other Funds</u></b>	<b><u>Net Income (Loss)</u></b>
2012	\$ 7,442,489	\$ 1,445,575	\$ 5,986,914	2,226,721
2013*	8,581,752	1,203,071	7,378,681	2,301,712
2014	4,273,887	1,691,007	2,582,880	(4,795,801)
2015	3,304,221	1,384,091	1,920,130	(1,759,024)
2016*	4,500,362	3,065,182	1,435,180	(425,006)

\*Per examination

### **LOSS EXPERIENCE**

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

	(1)	(2)	(2)/(1)	(3)	(2)+(3)/(1)
<u>Year</u>	<u>Total Revenues</u>	<u>Total Hospital and Medical</u>	<u>Medical Loss Ratio</u>	<u>CAE and General Expenses</u>	<u>Combined Loss Ratio</u>
2012	\$ 19,567,524	\$ 16,015,918	81.8%	\$ 1,370,745	88.9%
2013*	19,215,770	15,625,952	81.3%	1,334,707	88.3%
2014	16,740,638	19,827,656	118.4%	1,752,040	128.9%
2015	20,996,578	21,337,017	101.6%	1,455,779	108.5%
2016*	17,443,140	16,601,515	95.2%	1,292,915	102.6%

\*Per examination

A combined loss and expense incurred to premium ratio of more than 100% would indicate an underwriting loss. The Trust reported underwriting gains in 2012 and 2013 and underwriting losses in 2014, 2015, and 2016.

## REINSURANCE

### Assumed Business

None

### Ceded Business

During the period under examination, the Trust entered into annual Stop Loss Reinsurance Agreements with Regence BlueCross BlueShield of Oregon. Under the terms of the 2016 Agreement (effective April 1, 2016), Regence will reimburse the Plan Sponsor for the amount of paid claims that exceed the specific Stop-Loss Deductible and for any claims between the Specific Stop-loss deductible and a higher specific stop-loss deductible assigned to a higher risk participant (the lasered deductible), up to the specific stop loss limit of liability. Specific stop-loss deductible per participant is \$100,000. Specific stop-loss limit of liability amount applies separately to each Participant and accumulation towards the limit of liability amount starts over each subsequent term. The annual maximum per eligible participant is unlimited. Regence will reimburse the Plan Sponsor for the amount of claims in excess of liability, up to the Aggregate stop-loss limit of liability, which is \$2 million. The Agreement covers incurred claims between

April 1, 2010 and March 31, 2017 and paid claims from April 1, 2016 through March 31, 2017. Eligible claims include medical, vision, and prescription drug. The reinsurance agreement does not relieve the Trust from its primary obligation to its members. The Agreement did not contain a termination provision regarding proper notification to the Director of the Department of Consumer and Business Services pursuant to the provisions of ORS 750.309(2b).

**I recommend that the Trust amend their Stop Loss Reinsurance Agreement with Regence BlueCross BlueShield of Oregon to include a termination provision regarding proper written notification to the Director of DCBS pursuant to the provisions of ORS 750.309(2b).**

### **Risk Retention**

Based on the Trust's total adjusted capital and surplus of \$1,435,180 at December 31, 2016, the Trust does not maintain risk on any one participant in excess of ten percent of its capital and surplus, pursuant to the provisions of ORS 750.309(2).

### **ACCOUNTS AND RECORDS**

In general, the Trust's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable as required by the provisions of ORS 733.170. The Trust maintains its accounting records on a statutory basis for NAIC Annual Statement reporting. The Trust is audited annually by the certified public accounting firm of Aldrich CPAs + Advisors, LLP. and received unqualified opinions for each of the three years under review. The Trust has a system in place to account for unclaimed funds, and the Plan Administrator is aware the Trust is required to report uncashed checks as abandoned property pursuant to the provisions of ORS 98.352

### **STATUTORY DEPOSIT**

To satisfy the statutory deposit requirements in Oregon for a Multiple Employer Welfare Arrangement, the Trust has on deposit a \$250,000 surety bond with the Department of Consumer and Business Services, Division of Financial Regulation pursuant to the provisions of ORS 750.309(5).

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations made for the 2013 Report of Examination.

### **SUBSEQUENT EVENTS**

On April 1, 2018, Linfield College dropped out of the Trust, leaving total remaining participating colleges/universities at four. This is in violation of ORS 750.307(1) which requires a Trust carrying out a MEWA be maintained by a group of employers with a minimum of five employers in the same trade or industry.

The Stop Loss Reinsurance Agreement with Regence BlueCross/BlueShield of Oregon requires the Trust to maintain a statutory capital and surplus minimum of \$1,000,000. The December 31, 2017 Annual Statement revealed the Trust's capital and surplus had fallen to \$898,414 in violation of their required Treaty minimum. It is also in violation of ORS 750.309(2) which requires the Trust demonstrate to the Director of the Department of Consumer and Business Services that it is capable of supporting an exposure exceeding 10 percent of its capital and surplus.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Trust with the Oregon Division of Financial Regulation and present the financial condition of the Trust 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

**PIONEER EDUCATORS HEALTH TRUST**  
**ASSETS**  
**As of December 31, 2016**

<u>ASSETS</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$ 980,000	\$ -	\$ 980,000	1
Cash and short-term investments	3,506,083	-	3,506,083	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>4,486,083</u>	-	<u>4,486,083</u>	
Investment income due and accrued	8,776	-	8,776	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	5,324	-	5,324	
Amounts recoverable from reinsurers	179	-	179	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 4,500,362</u>	<u>\$ 0</u>	<u>\$ 4,500,362</u>	

**PIONEER EDUCATORS HEALTH TRUST**  
**LIABILITIES, CAPITAL AND SURPLUS**  
**As of December 31, 2016**

Liabilities, Surplus and other Funds	Balance per Trust	Examination Adjustments	Balance per Examination	<u>Notes</u>
Claims unpaid	\$ 1,529,294	\$ 59,944	\$ 1,589,238	2
Accrued medical incentive pool and bonus arrangements	-	-	-	2
Unpaid claims adjustment expense	152,929	-	152,929	2
Premiums received in advance	1,232,718	-	1,232,718	
General expenses due or accrued	90,297	-	90,297	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 3,005,238</u>	<u>\$ 59,944</u>	<u>\$ 3,065,182</u>	
Common capital stock	-	-	-	
Gross paid in and contributed surplus	1,487,127	-	1,487,127	
Aggregate write-ins for other than special surplus funds	-	-	-	
Unassigned funds (surplus)	<u>7,997</u>	<u>(59,944)</u>	<u>(51,947)</u>	
Total capital and surplus	<u>1,495,124</u>	<u>(59,944)</u>	<u>1,435,180</u>	
Total liabilities, capital and surplus	<u>\$ 4,500,362</u>	<u>\$ -</u>	<u>\$ 4,500,362</u>	

**PIONEER EDUCATORS HEALTH TRUST**  
**STATEMENT OF REVENUE AND EXPENSES**  
**For the Year Ended December 31, 2016**

	<u>Balance per Company</u>	<u>Examination Adjustment</u>	<u>Balance per Examination</u>	<u>Note</u>
Net premium income	\$ 17,443,140	\$ -	\$ 17,443,140	
Aggregate write-ins for other non-health care related revenue	<u>-</u>	<u>-</u>	<u>-</u>	
Total Revenues	<u>17,443,140</u>	<u>-</u>	<u>17,443,140</u>	
Hospital and Medical:				
Hospital/medical benefits	12,265,882	-	12,265,882	
Other professional services	1,424,038	-	1,424,038	
Prescription drugs	<u>3,953,617</u>	<u>-</u>	<u>3,953,617</u>	
Subtotal	<u>17,643,537</u>	<u>-</u>	<u>17,643,537</u>	
Less:				
Net reinsurance recoveries	<u>1,042,022</u>	<u>-</u>	<u>1,042,022</u>	
Total hospital and medical	16,601,515	-	16,601,515	
Non-health claims	-	-	-	
Claim adjustment expenses	994,534	-	994,534	
General administrative expenses	298,381	-	298,381	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>17,894,430</u>	<u>-</u>	<u>17,894,430</u>	
Net underwriting gain or (loss)	<u>(451,290)</u>	<u>-</u>	<u>(451,290)</u>	
Net investment income earned	26,284	-	26,284	
Net realized capital gains or (losses)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment gains or (losses)	<u>26,284</u>	<u>-</u>	<u>26,284</u>	
Aggregate write-ins for other income or expenses	-	-	-	
Federal and foreign income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>	
Net Income (loss)	<u>\$ (425,006)</u>	<u>\$ -</u>	<u>\$ (425,006)</u>	

**PIONEER EDUCATORS HEALTH TRUST**  
**RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION**  
**For the Year Ended December 31,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus, December 31, previous year	\$ 1,920,130	\$ 2,582,880	\$ 7,378,681
Net income or (loss)	(425,006)	(1,759,024)	(4,795,801)
Net unrealized capital gains or (losses)	-	-	-
Change in net deferred income tax	-	-	-
Change in no admitted assets	-	-	-
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	1,096,274	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Examination adjustment	(59,944)	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>(484,950)</u>	<u>(662,750)</u>	<u>(4,795,801)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 1,435,180</u>	<u>\$ 1,920,130</u>	<u>\$ 2,582,880</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

At December 31, 2016, the Trust’s long-term investments were comprised of four certificates of deposit with maturities of greater than one year from the purchase date.

The Trust reported \$3,583,778 in short-term investments, which were comprised of five certificates of deposit with maturities of less than one year from the purchase date and two money market mutual funds.

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

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash</u>	<u>C</u> <u>Short-term</u> <u>Investments</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Invested</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Invested</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Invested</u> <u>Assets</u>
2012	5,590,000	(1,214,418)	3,031,911	75.5%	(16.4)%	40.9%
2013*	5,635,000	(1,702,164)	4,622,065	65.9%	(19.9)%	54.0%
2014	5,635,000	(2,053,433)	662,152	132.8%	(48.4)%	15.6%
2015	3,430,000	(2,201,496)	2,057,874	104.4%	(67.0)%	62.6%
2016*	980,000	(77,695)	3,583,778	21.8%	(1.7)%	79.9%

\*Per examination

Investment transactions were approved by the Board of Trustees, pursuant to ORS 733.730. 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 in accordance with ORS 733.580.

Effective January 7, 2007, the Trust entered into a custodial agreement with Wells Fargo Bank, N.A., which is a qualified banking institution. The custodial agreement contained all the protections required by OAR 836-027-0200(4)(a) to (l).

### Note 2 – Actuarial Reserves

A review of the unpaid claims and claim adjustment expense reserves for the Trust was performed by David Ball, FSA, MAAA, life and health actuary for the Oregon Division of Financial Regulation. As part of his review, he examined the Actuarial Report supporting statements as of December 31, 2016, prepared by the Trust’s consulting actuary, Deana Bell, FSA, MAAA, of Milliman, Inc., of Seattle, Washington.

Mr. Ball reviewed the reconciliation of the data used in the Trust’s Actuarial Report to the data in the actuarial work-papers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the Annual Statement filing, as well as prepared his own independent calculations. He determined the following:

	<u>My Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 1,589,238	\$ 1,529,294
Accrued Medical Incentive Pool and Bonus Payments	-	-
Unpaid Claims Adjustment Expenses	152,929	152,929
Aggregate Health Policy Reserves	<u>\$ -</u>	<u>-</u>
Total Actuarial Liabilities	<u>\$ 1,742,167</u>	<u>\$ 1,682,223</u>

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Trust as of December 31, 2016 were adequately stated under reasonably anticipated and moderately adverse scenarios. Mr. Ball's total estimate was more than the appointed actuary's estimate by \$59,944, indicating a reserve deficiency. The reserves at 12/31/2016 were increased by this amount in the financial statements, with a corresponding decrease in surplus.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

Page 13      I recommend that the Trust amend their Stop Loss Reinsurance Agreement with Regence BlueCross BlueShield of Oregon to include a termination provision regarding proper written notification to the Director of DCBS pursuant to the provisions of ORS 750.309(2)(b).

### **CONCLUSION**

During the three year period covered by this examination, the surplus of the Trust has decreased from \$7,378,681, as presented in the December 31, 2013 financial report of examination, to \$1,435,180, as shown in this report of financial examination. The comparative assets and liabilities are shown below:

	<u>2016</u>	<u>December 31, 2013</u>	<u>Change</u>
Assets	\$4,500,362	\$8,581,752	\$(4,081,390)
Liabilities	<u>3,065,182</u>	<u>1,203,071</u>	<u>(1,862,111)</u>
Surplus	<u>\$1,435,180</u>	<u>\$7,378,681</u>	<u>\$(5,943,501)</u>

**ACKNOWLEDGMENT**

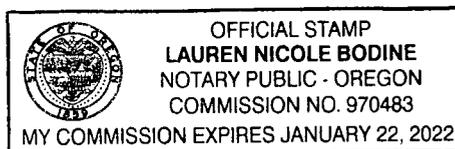
The cooperation and assistance extended by the directors of the Trust and the officers and employees of the Plan Administrator and Cypress Benefit Administrators during the examination process are gratefully acknowledged.

In addition to the undersigned, Khoa V. Nguyen, insurance examiner and David N. Ball, FSA, MAAA, Life and Health Actuary, participated in the examination. All are employees of the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation.

Respectfully submitted,



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



**AFFIDAVIT**

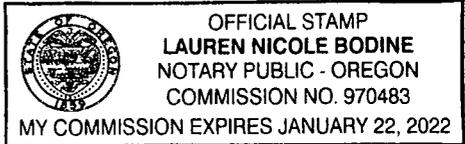
STATE OF OREGON            )  
  )  ss  
County of Marion            )

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

1. I have authority to represent the state of Oregon in the examination of Pioneer Educators Health Trust, 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 Pioneer Educators Health Trust 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 me this 25<sup>th</sup> day of May, 2018.

  
\_\_\_\_\_  
NOTARY PUBLIC for the State of Oregon

My Commission Expires: 1/22/2022