

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



REPORT OF FINANCIAL EXAMINATION

OF

SAMARITAN HEALTH PLANS, INC.
CORVALLIS, OREGON

AS OF

DECEMBER 31, 2015

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**SAMARITAN HEALTH PLANS, INC.
CORVALLIS, OREGON**

NAIC COMPANY CODE 12257

AS OF

DECEMBER 31, 2015

TABLE OF CONTENTS

| | |
|--|-----------|
| SALUTATION | 3 |
| SCOPE OF EXAMINATION | 4 |
| COMPANY HISTORY | 5 |
| <i>Capitalization</i> | 5 |
| <i>Dividends and Other Distributions</i> | 5 |
| CORPORATE RECORDS | 5 |
| <i>Board Minutes</i> | 5 |
| <i>Articles of Incorporation</i> | 7 |
| <i>Bylaws</i> | 7 |
| MANAGEMENT AND CONTROL | 7 |
| <i>Board of Directors</i> | 7 |
| <i>Officers</i> | 8 |
| <i>Conflict Of Interest</i> | 8 |
| <i>Insurance Company Holding System</i> | 9 |
| INTERCOMPANY AGREEMENTS | 11 |
| FIDELITY BOND AND OTHER INSURANCE | 13 |
| TERRITORY AND PLAN OF OPERATION | 14 |
| GROWTH OF THE COMPANY | 15 |
| LOSS EXPERIENCE | 15 |
| REINSURANCE | 16 |
| <i>Assumed</i> | 16 |
| <i>Ceded</i> | 16 |
| ACCOUNTS AND RECORDS | 17 |
| STATUTORY DEPOSITS | 17 |
| COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS | 18 |
| SUBSEQUENT EVENTS | 18 |
| FINANCIAL STATEMENTS | 18 |
| NOTES TO FINANCIAL STATEMENTS | 24 |
| <i>Note 1 – Invested Assets</i> | 24 |
| <i>Note 2 – Actuarial Reserves</i> | 24 |
| SUMMARY OF COMMENTS AND RECOMMENDATIONS | 25 |
| CONCLUSION | 26 |
| ACKNOWLEDGMENT | 27 |
| AFFIDAVIT | 28 |

SALUTATION

March 29, 2017

Honorable Laura Cali Robison, 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 and 731.302, respectively, we have examined the business affairs and financial condition of

SAMARITAN HEALTH PLANS, INC.
3600 N.W. Samaritan Drive
Corvallis, Oregon 97330

NAIC Company Code 12257

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

SCOPE OF EXAMINATION

We have performed our single state examination of Samaritan Health Plans, Inc. The last examination of this health care service contractor covered the period from January 1, 2009 to December 31, 2011. This examination covers the period from January 1, 2012 to December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Plan, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Plan's surplus to be materially misstated, both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in ORS 731.312 and general information about the Plan and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Plan.

COMPANY HISTORY

Samaritan Health Plans, Inc. is an Oregon private non-profit mutual benefit corporation that is a direct subsidiary of Samaritan Health Services. It was formed on May 16, 2004, by Samaritan Health Services, Inc. (SHS) and received a Certificate of Authority as a health care service contractor on January 31, 2005.

Capitalization

The Company was initially capitalized in September 2004 with surplus contributions from SHS. These contributions totaled \$3,950,000 and there were no changes during the period under examination.

On March 31, 2008, the Company issued a \$1.5 million surplus note to SHS in exchange for cash. Interest on the note accrued at a 5% annual rate, with annual payments due December 31. The surplus note was amended effective December 31, 2012, to reduce the interest rate to 3% effective January 1, 2013, and to extend the due date to December 31, 2017. Effective December 22, 2014, an additional surplus note in the amount of \$600,000 was issued to SHS. This note has an interest rate of 3% payable annually starting December 31, 2015, with a maturity date of December 31, 2018. During the period under examination, all interest payments were made with the approval of the Director of DCBS.

Dividends and Other Distributions

During the period under examination, the Plan did not declare or pay any cash dividends or make any distributions to its sole member.

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 that the Board adequately reviews, discusses and approves significant decisions and transactions. A quorum, as defined by the Plan's Bylaws, met at all of the meetings held during the period under review.

The Plans' bylaws allow for any committee to be established. The Committees authorized by the Board are an Audit Committee, an ERM Committee and a Compliance Committee. The committee's actions are summarized and reported to the board of directors during their regular meetings. The Audit Committee consists of all members of the Board and is responsible for reviewing and approving all audit services performed by the external auditors. The Audit Committee did not operate under a formal Charter. Further, the Plan did not formally appoint an external auditor.

I recommend the Board of Directors, through its Audit Committee, formally appoint an external auditor in accordance with the provisions of OAR 836-011-0223.

The ERM Committee has a Charter which is to develop an ERM framework which will identify, evaluate, report, and monitor all types of risks facing the Plan. The Plan appears to be following its charter.

The Compliance Committee did not operate under a formal Charter. Its mission is to enact standards to assure that business is conducted in compliance with the Plan's ethical standards as well as all federal, state, and local government regulations. The Plan relies on appointed committees of the ultimate controlling entity, SHS.

The Plan's Board does not directly approve the compensation of all its senior officers. Instead, the parent's Board sets compensation for its officers, which include the officers of the Plan. The Plan's Board does approve an annual budget, which includes salaries and

compensation reimbursed under the Administrative & Staff Reimbursement Agreement. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Plan last amended its Articles of Incorporation on December 10, 2007. No changes were made to the Articles during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Plan’s Bylaws were last amended and restated as of August 25, 2014, which included the period under examination. The Plan’s Bylaws conformed to the Oregon Insurance Code.

MANAGEMENT AND CONTROL

Board of Directors

The Restated Bylaws state the management of the affairs of the corporation shall be vested in its Board of Directors. The Restated Articles of Incorporation, under Article VIII, and the Restated Bylaws, in Article IV, Section 1, state the number of directors shall be no less than seven (7) and no more than fifteen (15). As of December 31, 2015, the Plan was governed by an eight member Board of Directors as follows:

| <u>Name and Address</u> | <u>Principal Affiliation</u> | <u>Member Since</u> |
|--|---|----------------------------|
| James S. Merryman Corvallis, Oregon | President Oregon Freeze Dry, Inc. | 2014 |
| Douglas R. Boysen Corvallis, Oregon | Executive VP & Chief Administrative Officer Samaritan Health Services, Inc. | 2015 |
| Bruce Madsen, MD Albany, Oregon | Ophthalmologist EyeCare Associates | 2011 |
| William R. McCarthy Corvallis, Oregon | Retired Minister | 2005 |

| <u>Name and Address</u> | <u>Principal Affiliation</u> | <u>Member Since</u> |
|--|---|----------------------------|
| Doris M. Mimnaugh Corvallis, Oregon | Retired | 2005 |
| Larry A. Mullins* Corvallis, Oregon | President and CEO Samaritan Health Services, Inc. | 2004 |
| William A. Rauch Lebanon, Oregon | Certified Public Accountant Sundberg Rauch Benneth Horner & McFetridge CPAs | 2004 |
| David G. Tribes Corvallis, Oregon | Executive Vice President Samaritan Health Services, Inc. | 2004 |

* Board Chairman

ORS 750.015 requires at least one third of the Board of Directors be representatives of the public who are not practicing doctors, employees, or trustees of a participant hospital. The Plan was in compliance with ORS 750.015.

Officers

Principal officers serving at December 31, 2011, were as follows:

| <u>Name</u> | <u>Title</u> |
|---------------------|-------------------------|
| Kelley C. Kaiser | Chief Executive Officer |
| Daniel B. Smith | Chief Financial Officer |
| Kimberly R. Whitley | Chief Operating Officer |

Conflict Of Interest

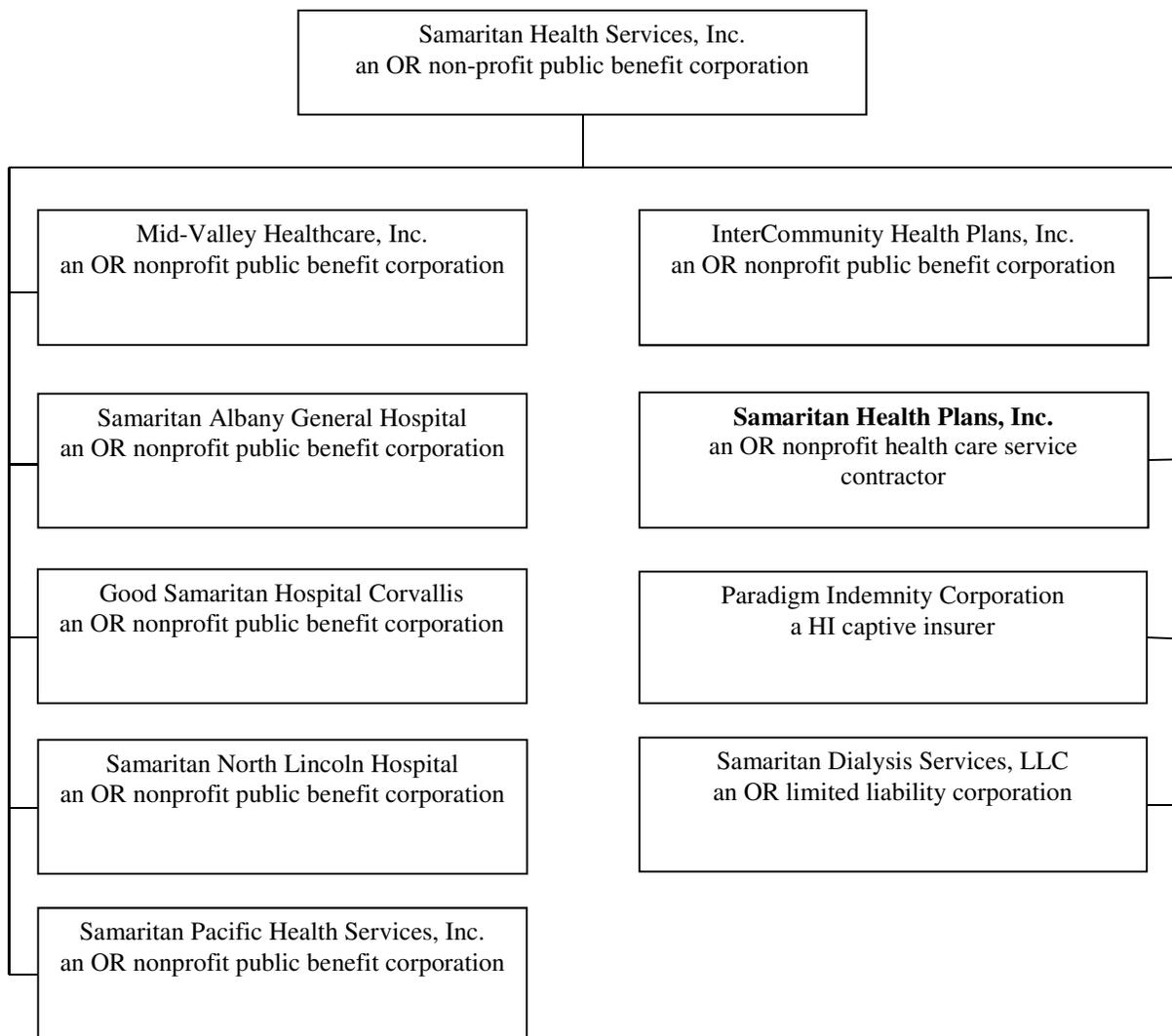
SHS's Board adopted a Code of Conduct Policy to guide ethical behavior and help reduce criminal conduct. The policy requires all Board members, senior officers and key employees to sign a conflict of interest statement annually. Further, employees are required to have annual ethics training and a whistleblower program has been established for employees to report any suspicious activity or concerns anonymously. 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

Samaritan Health Services, Inc. (SHS) is the ultimate controlling entity that is the sole member of five Oregon hospitals and a number of health related entities, including the Plan.

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



A description of the entities within the holding company includes five affiliated hospitals, as follows:

Albany General Hospital dba Samaritan Albany General Hospital was formed on April 22, 1924. It serves the greater Albany area as an acute care facility and health center.

Mid-Valley Healthcare, Inc., dba Samaritan Lebanon Community Hospital was formed on June 5, 1950. It is a critical access hospital serving the east Linn County communities of Lebanon, Sweet Home, Brownsville and smaller neighboring towns.

Good Samaritan Hospital Corvallis dba Good Samaritan Regional Medical Center was formed on April 7, 1948. It is the largest hospital in Linn, Benton and Lincoln counties.

Samaritan North Lincoln Hospital was founded in 1967 and incorporated on October 31, 2000. It is based in Lincoln City, Oregon.

Samaritan Pacific Health Services, Inc., dba Samaritan Pacific Communities Hospital, was founded in 1952 and incorporated on November 7, 2001. It serves the communities of Newport, Waldport, Toledo, Depoe Bay and Yachats in Lincoln County.

Other affiliates of the Plan include:

InterCommunity Health Plans, Inc. dba InterCommunity Health Network was formed on April 30, 1993, by Albany General Hospital, Good Samaritan Hospital Corvallis and Lebanon Community Hospital to write Oregon Health Plan business through the Division of Medical Assistance Program (DMAP). It recently obtained authority to write business as a Coordinated Care Organization (CCO) through the Oregon Health Authority.

Paradigm Indemnity Corporation is a Hawaii domiciled non-profit captive insurance company formed by SHS on May 1, 2003, to directly insure its subsidiary hospitals and employed or contracted physicians for professional liability and general liability coverage.

Samaritan Dialysis Services, LLC, was formed on July 7, 1998 and is currently a shell company. It had been providing a dialysis program for SHS, but sold all its operating assets, including its license and personal property, to Fresenius Medical Care effective October 23, 2011.

INTERCOMPANY AGREEMENTS

Management services are provided by SHS to staff the Plan's operations and to efficiently manage the Plan. The Plan reimburses SHS for the actual salary costs plus benefits for their allocated portion of the staff utilized by the Plan. Cost efficiencies are realized in creating a flexible workforce with cross training and shared management.

Annually, as part of the budget process, the management of the Plan's operations evaluates the shared expenses in relation to the past experience, effort, complexity, implementation issues and membership estimates of each of its subsidiary health plans to determine the percentage allocation for the next budget year. These corporate expenses are recorded on the books of SHS Corporate department on a monthly basis, and then allocations are transferred to the individual Plan entity via journal entries.

In 2014, a separate allocation was added related to claims payment processing services that are used primarily based on the volume of claims processed. This allocates salaries, benefits, and specific expenses subject to claims volume for each plan. Allocation percentage will be adjusted quarterly based on claims processed. The corporate expenses will be recorded in the SHPO Corporate claims department.

During the period under examination, the allocations were:

| <u>Entity</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| Samaritan Health Plans, Inc. (Advantage Plan) | 35% | 32% | 31% |
| Samaritan Health Plans, Inc. (HealthyKids Connect) | 2% | 1% | 0% |
| InterCommunity Health Plans, Inc. | 47% | 45% | 58% |
| Samaritan Health Services, Inc. (Samaritan Choice Plans) | 16% | 12% | 8% |
| Samaritan Health Services, Inc. (TPA Services) | 0% | 0% | 0% |
| Commercial – Small Group | | 5% | 1% |
| Commercial – Large Group | | 5% | 1% |
| Total | 100% | 100% | 100% |

The following contracts or agreements with related parties are in place:

Professional Building Lease – Starting in 2005 and amended annually, SHS agrees to operate as landlord and its operational division as tenant. The current lease sets the square footage rental rate on the headquarters building for each year of the period 2011 to 2015, and an option that extends to the end of 2018. An annual Professional Building Allocation Agreement is entered into each year between SHS and its subsidiaries, including the Plan, to allocate rent expense on the Avery Square building. During 2015, the Plan paid its allocation of the total monthly rent under the shared expenses method described above. Payments under the agreement are due on or before the 1st day of each calendar month. The lease was terminated in March, 2016 when the majority of the Plan’s operations moved to the new building located at 3600 N.W. Samaritan Drive.

Administrative & Staff Reimbursement Agreement – Effective January 1, 2008, and amended January 15, 2008, the Plan and SHS entered into an agreement whereby SHS agrees to provide administrative services and staff services to the Plan in exchange for a set monthly fee. Administrative services include human resources, payroll, accounting, risk management, investments, materials management, and stores. Staff services include the services of the Medical Director and related support staff.

Services Agreement for Credentialing Services – SHS and its subsidiaries, including the Plan, annually enters into an agreement to provide credentialing services as an independent contractor to maintain the Plan’s provider network. SHS agrees to participate in the quality assurance and performance improvement program and external quality review, credentialing, and utilization review system and beneficiary grievance procedures established by the Plan. Compensation is a fixed amount per year, allocated based on the shared expenses method described above.

Guaranty Agreement – Effective November 19, 2008, the Plan and SHS entered into an agreement whereby SHS agrees to guarantee the financial obligations of the Plan. SHS also agrees to guarantee to provide healthcare services to the Plan’s subscribers, enrollees, and dependents in the event that the Plan is discontinued prior to the expiration of its contracts.

Agreement with Intercommunity Health Plans – Effective January 1, 2015 the Plan entered an agreement with IHP dba Intercommunity Health Network CCO. Under the agreement, IHP agrees to reimburse the Plan 50% of the dual premium received throughout the year for the Plan’s management of the dually enrolled Special Needs members as long as costs incurred on IHN for these members do not exceed this amount. The reimbursement is due to the Plan by June 1st of the following year.

2015 SHP & IHP Dual Eligible Agreement – The Plan is required through its annual contract with CMS to provide extensive, regulated and labor intensive care management approaches through the “Model of Care” required for all Special Needs Plan members

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Plan's insurance

coverages are provided through insurance policies from an unaffiliated carrier covering SHS and all majority-owned subsidiary companies as a named insured. The group as a whole is insured up to \$5,000,000 per individual loss, with a \$50,000 retention against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2015, were found to be adequate, and included:

Workers Compensation
Commercial Liability

Employers Liability
Crime Policy

TERRITORY AND PLAN OF OPERATION

The Plan is authorized to conduct business as a health care service contractor in Oregon. The Plan is a locally managed Medicare plan for eligible residents of Linn, Benton and Lincoln counties under a contract with the Centers for Medicare and Medicaid Studies (CMS). It offers enrolled members hospitalization coverage, doctor office visits, emergency care, urgent care, routine physical exams, skilled nursing facility care, chiropractic and acupuncture services, vision services, and preventative and diagnostic services. In addition to the conventional Medicare Advantage coverage, the Plan offers a Premier Plan, Premier Plus Plan and Special Needs Plan for an extra monthly premium. These offer additional benefits such as outpatient prescription drugs, dental benefit, hearing aid benefit and durable medical equipment.

During 2009, the Plan became authorized by the Oregon Health Authority to offer the Healthy KidsConnect program to provide comprehensive health care to eligible children in Linn, Benton, Lincoln and Tillamook counties. The Oregon Health KidsConnect program was discontinued on December 31, 2013.

Beginning in January, 2015, the Company began selling commercial plans to small (50 employees or less) and large groups mainly residing in the Mid-Willamette Valley area.

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

| <u>Line of Business</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Individual hospital & medical | 0 | 0 | 0 | 0 | 0 |
| Group hospital & medical | 951 | 0 | 0 | 0 | 0 |
| Medicare supplement | 0 | 0 | 0 | 0 | 0 |
| Vision only | 0 | 0 | 0 | 0 | 0 |
| Dental only | 0 | 0 | 0 | 0 | 0 |
| FEHBP | 0 | 0 | 0 | 0 | 0 |
| Medicare | 4,936 | 4,929 | 5,081 | 5,241 | 5,165 |
| Medicaid | 0 | 0 | 0 | 0 | 0 |
| Other | <u>0</u> | <u>0</u> | <u>332</u> | <u>377</u> | <u>274</u> |
| Total enrollment | <u>5,887</u> | <u>4,929</u> | <u>5,413</u> | <u>5,618</u> | <u>5,439</u> |

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 Oregon Insurance Division.

| <u>Year</u> | <u>Assets</u> | <u>Liabilities</u> | <u>Capital and Surplus</u> | <u>Net Income (Loss)</u> |
|--------------------|----------------------|---------------------------|-----------------------------------|---------------------------------|
| 2011* | \$ 12,827,715 | \$ 6,768,493 | \$ 6,059,224 | \$ (413,844) |
| 2012 | 15,740,992 | 8,010,578 | 7,730,414 | 1,292,817 |
| 2013 | 16,628,351 | 8,598,057 | 8,030,294 | (514,421) |
| 2014 | 19,050,075 | 9,903,641 | 9,146,434 | 809,565 |
| 2015* | 17,417,571 | 9,874,533 | 7,543,038 | (939,872) |

* Per examination

LOSS EXPERIENCE

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

| | (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>Claim Adjustment and General Expenses</u> | <u>Combined Loss Ratio</u> |
| 2011* | 57,077,427 | 53,564,563 | 94.4% | 4,388,079 | 101.5% |
| 2012 | 55,649,842 | 49,164,682 | 88.3% | 4,490,186 | 96.4% |
| 2013 | 55,427,413 | 49,750,188 | 89.7% | 2,684,104 | 94.6% |
| 2014 | 57,816,108 | 49,841,948 | 86.2% | 2,739,247 | 90.9% |
| 2015* | 61,051,759 | 54,038,823 | 88.5% | 3,443,220 | 94.1% |

* Per examination

A combined loss incurred and expense to premium ratio of more than 100% would indicate an underwriting loss. The Plan reported underwriting losses in one of the last five years.

REINSURANCE

Assumed

None.

Ceded

During the period under examination, the Plan had an Excess of Loss Reinsurance policy with Munich Reinsurance America, Inc. (NAIC #10227), a Delaware domiciled property and casualty insurer authorized in Oregon on January 1, 1978. The Company is authorized to write health insurance in Oregon.

Under the policy, the reinsurer reimbursed the Plan for losses per member up to a maximum of \$2,000,000 for each covered member after retention of \$250,000 for Medicare business and retention of \$300,000 for small and large group business. The agreement contains a continuation of coverage provision providing limited coverage for Medicare members, subject to limitations and exclusions in the event the Plan goes insolvent. The liability of Munich Reinsurance under the provision is limited to \$5,000,000.

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

In view of the Plan's adjusted capital and surplus of \$7,771,669 at December 31, 2015, it does not maintain risk on any one subject in excess of 10% 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, 2015, 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 requirements in Oregon for a health care service contractor, the Plan has on deposit a \$275,000 Certificate of Deposit from US Bank with the Division of Financial Regulation of the Department of Consumer and Business Services. This asset was confirmed directly by US Bank but was not properly disclosed on Schedule E – Part 3 in the 2015 Annual Statement.

I recommend that the Plan properly disclose the required statutory deposit in Schedule E – Part 3 of the Annual Statement in accordance with the NAIC Health Annual Statement Instructions and include allowed securities as special deposits pursuant to the provisions of ORS 731.604 and the requirements of the Oregon Division of Financial Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There was one recommendation made in the 2011 report of examination that the Plan non-admit prepaid expenses on future financial statements. The recommendation resulted in a \$558,931 reduction to surplus. The Plan agreed with the recommendation and non-admitted prepaid expenses on the subsequent quarterly financial statement.

SUBSEQUENT EVENTS

Effective April, 2016, the Plan hired Barb Koslow as Director of NCQA Accreditation. Effective March, 2016, the Plan hired Mike Blythe as Director of Sales & Underwriting to assist in increasing their commercial business. Effective September, 2016, the Plan hired Bill Bouska as Director of Governmental Affairs. Effective April, 2016 hired Michelle Crawford as Director of Data Strategy

Effective in March, 2016 the majority of the Plan's business operations, including the accounting function moved into a new building that was purchased by Samaritan Health Services. Corporate functions and Information Technology operations remain in the building located at 815 N.W. 9th Street. As a result, effective April 1, 2016 the Professional Building lease from 2005 was amended by redacting the premises section in its entirety and replacing it with the premises located at 2300 Walnut Boulevard, Corvallis, Oregon. No other sections of the lease were changed.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Plan with the Oregon Division of Financial Regulation and present the financial condition of the Plan for the period ending December 31, 2015. 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

SAMARITAN HEALTH PLANS, INC.
ASSETS
As of December 31, 2015

| Assets | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|--------------------------------|------------------------------------|------------------------------------|--------------|
| Bonds | \$ 9,224,804 | \$ - | \$ 9,224,804 | 1 |
| Common stocks | 1,010,715 | - | 1,010,715 | 1 |
| Cash, cash equivalents and short-term investments | 4,984,208 | - | 4,984,208 | 1 |
| Receivables for Securities | <u>194</u> | <u>-</u> | <u>194</u> | |
| Subtotal, cash and invested assets | \$15,219,921 | \$ - | \$15,219,921 | |
| Investment income due and accrued | 106,108 | - | 106,108 | |
| Premiums and considerations | | | | |
| Uncollected premiums, agents' balances in course of collection | 38,845 | - | 38,845 | |
| Amounts Recoverable from Reinsurers | 85,222 | - | 85,222 | |
| Amounts receivable relating to uninsured plans | 1,496,594 | - | 1,496,594 | |
| Current FIT recoverable | 384,199 | - | 384,199 | |
| Net deferred tax asset | 1 | - | 1 | |
| Health care receivable | 86,681 | - | 86,681 | |
| Aggregate write-ins for other than invested assets | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total Assets | <u>\$17,417,571</u> | <u>\$ -</u> | <u>\$17,417,571</u> | |

SAMARITAN HEALTH PLANS, INC.
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2015

| Liabilities, Surplus and other Funds | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|---|--------------------------------|------------------------------------|------------------------------------|--------------|
| Claims unpaid | \$ 7,319,286 | \$ 470,981 | \$ 7,790,267 | 2 |
| Accrued medical incentive pool and bonus | - | - | - | |
| Unpaid claim adjustment expenses | 184,474 | 82,265 | 266,739 | 2 |
| Aggregate health policy reserves | 332 | - | 332 | |
| Premiums received in advance | 328,822 | - | 328,822 | |
| General expenses due or accrued | 1,152,680 | - | 1,152,680 | |
| Net Deferred Tax Liability | (14,790) | - | (14,790) | |
| Amounts due to parent, subs & affiliates | <u>350,483</u> | <u>-</u> | <u>350,483</u> | |
| Total Liabilities | <u>\$ 9,321,287</u> | <u>\$ 553,246</u> | <u>\$ 9,874,533</u> | |
| | | | | |
| Common capital stock | \$ - | \$ - | \$ - | |
| Gross paid in and contributed surplus | 3,950,000 | - | 3,950,000 | |
| Surplus notes | 2,100,000 | - | 2,100,000 | |
| Unassigned funds (surplus) | <u>2,046,284</u> | <u>(553,246)</u> | <u>1,493,038</u> | |
| Surplus as regards policyholders | <u>8,096,284</u> | <u>(553,246)</u> | <u>7,543,038</u> | |
| Total Liabilities, Surplus and other Funds | <u>\$17,417,571</u> | <u>\$ -</u> | <u>\$17,417,571</u> | |

SAMARITAN HEALTH PLANS, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2015

| Revenue | Balance per Company | Examination Adjustments | Balance per Examination | Notes |
|--|--------------------------------|------------------------------------|------------------------------------|--------------|
| Net premium income | \$ 52,766,345 | \$ - | \$ 52,766,345 | |
| Change in unearned premium reserves and reserves for rate credit | - | - | - | |
| Fee-for-service | - | - | - | |
| Risk revenue | - | - | - | |
| Aggregate write-ins for health care related revenues | <u>8,285,414</u> | <u>-</u> | <u>8,285,414</u> | |
| Total revenue | <u>61,051,759</u> | <u>-</u> | <u>61,051,759</u> | |
| | | | | |
| Hospital and Medical | | | | |
| Hospital/medical benefits | 29,698,382 | - | 29,698,382 | |
| Other professional services | 15,435,759 | - | 15,435,759 | |
| Outside referrals | 52,517 | - | 52,517 | |
| Emergency room and out-of-area | 3,461,044 | - | 3,461,044 | |
| Prescription drugs | 6,077,299 | - | 6,077,299 | |
| Incentive pool, withhold adjustments and bonus amounts | <u>-</u> | <u>-</u> | <u>-</u> | |
| Subtotal | 54,725,000 | - | 54,725,000 | |
| | | | | |
| Less: | | | | |
| Net reinsurance recoveries | <u>686,177</u> | <u>-</u> | <u>686,177</u> | |
| Total medical and hospital | 54,038,823 | - | 54,038,823 | |
| Non-health claims | - | - | - | |
| Claim adjustment expenses | 3,443,220 | - | 3,443,220 | |
| General administrative expenses | 5,016,963 | - | 5,016,963 | |
| Increase in reserves for life and accident and health contracts | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total underwriting deductions | <u>62,499,007</u> | <u>-</u> | <u>62,499,007</u> | |
| Net underwriting gain or (loss) | <u>(1,447,248)</u> | <u>-</u> | <u>(1,447,248)</u> | |
| Net investment income earned | 98,371 | - | 98,371 | |
| Net realized capital gains (losses) | <u>1,995</u> | <u>-</u> | <u>1,995</u> | |
| Net investment gains (losses) | 100,366 | - | 100,366 | |
| Net gain or (loss) from agents' or premium balances charged off | - | - | - | |
| Net income or (loss) income after capital gains tax and before federal income taxes | <u>(1,346,882)</u> | <u>-</u> | <u>(1,346,882)</u> | |
| Aggregate write-ins for other income or expense | - | - | - | |
| Federal income taxes incurred | <u>(407,010)</u> | <u>-</u> | <u>(407,010)</u> | |
| Net income (loss) | <u>\$ (939,872)</u> | <u>\$ -</u> | <u>\$ (939,872)</u> | |

SAMARITAN HEALTH PLANS, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

| | 2015 | 2014 | 2013 | 2012 |
|--|---------------------|---------------------|---------------------|---------------------|
| Surplus as regards policyholders, December 31, previous year | <u>\$ 9,146,434</u> | <u>\$ 8,030,294</u> | <u>\$ 7,730,414</u> | <u>\$ 6,618,155</u> |
| Net income | (939,872) | 809,565 | (514,421) | 1,292,817 |
| Change in net unrealized capital gains or (losses) | (129,260) | (198,242) | 184,678 | 159,040 |
| Change in net unrealized foreign exchange capital gain or (loss) | | - | - | - |
| Change in net deferred income tax | 78,279 | (95,622) | (14,090) | 29,678 |
| Change in non-admitted assets | (59,297) | 440 | 643,713 | (369,276) |
| Change in provision for reinsurance | - | - | - | - |
| Change in surplus notes | - | 600,000 | - | - |
| Cumulative effects of changes in accounting principles | - | - | - | - |
| Capital changes: | | | | |
| Paid in | - | - | - | - |
| Transferred from surplus (Stock Dividend) | - | - | - | - |
| Transferred to surplus | - | - | - | - |
| Surplus adjustments: | | | | |
| Paid in | - | - | - | - |
| Transferred to capital (Stock Dividend) | - | - | - | - |
| Transferred from capital | - | - | - | - |
| Dividends to parent (cash) | - | - | - | - |
| Change in treasury stock | - | - | - | - |
| Examination adjustment | (553,246) | | 1 | - |
| Aggregate write-ins for gains and losses in surplus | <u>-</u> | <u>-</u> | <u>-</u> | <u>1</u> |
| Change in surplus as regards policyholders for the year | <u>(1,603,396)</u> | <u>1,116,141</u> | <u>299,880</u> | <u>1,112,259</u> |
| Surplus as regards policyholders, December 31, current year | <u>\$ 7,543,038</u> | <u>\$ 9,146,434</u> | <u>\$ 8,030,294</u> | <u>\$ 7,730,414</u> |

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2015, the Plan’s long-term bond investments were mainly in a diversified portfolio of US obligations and corporate issues. The Plan did report one residential mortgage backed security and one US Special Revenue Issuer Obligation.

Common stocks consisted of two mutual funds.

Short-term deposits consisted of two industrial bonds maturing in 2016 and two short term money market funds held in the custodial account at US Bank.

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

| <u>Year</u> | <u>A</u> | <u>B</u> | <u>C</u> | <u>Ratio</u> | <u>Ratio</u> | <u>Ratio</u> |
|-------------|--------------|----------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Bonds</u> | <u>Common Stocks</u> | <u>Cash and Short-term</u> | <u>A/ Total Assets</u> | <u>B/ Total Assets</u> | <u>C/ Total Assets</u> |
| 2011* | 7,375,194 | 1,074,791 | 3,051,306 | 58.5% | 8.5% | 24.2% |
| 2012 | 8,608,337 | 1,260,150 | 5,233,731 | 54.7% | 8.0% | 33.2% |
| 2013 | 9,493,953 | 1,612,524 | 4,484,990 | 57.1% | 9.7% | 27.0% |
| 2014 | 8,376,036 | 1,050,094 | 8,409,825 | 43.9% | 5.5% | 44.1% |
| 2015* | 9,224,804 | 1,010,715 | 4,984,208 | 52.9% | 5.8% | 28.6% |

The Board approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2015, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits. As a result the Plan was in compliance with ORS 733.580.

Effective January 26, 2005, the Plan entered into a custodial agreement with US Bank, NA. The agreement contained all but two of the relevant protections described in OAR 836-027-0200(4)(a) through (l). There was no indication that section (4)(f) prompt notification of custodial agreement termination, nor section (4)(k) insurance protection in an adequate amount were included in the agreement.

I recommend the Plan amend their custodial agreement with US Bank to include all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – 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 and supporting statements as of December 31, 2015, prepared by Christopher S. Carlson, FSA, MAAA, of Oliver Wyman Actuarial Consulting.

Mr. Ball reviewed the reconciliation of the data used in the Company’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 and also had access to lag triangles for all twelve months in 2016, allowing him to check Mr. Carlson’s estimates with more recent data in terms of claims runoff. Based on his review, the following was concluded:

| | <u>My Estimate</u> | <u>Annual Statement</u> |
|---|--------------------|-------------------------|
| Claims Unpaid | \$7,790,267 | \$7,319,286 |
| Unpaid Claims Adjustment Expenses (CAE) | 266,739 | 184,474 |
| Premium Deficiency Reserves | <u>-</u> | <u>-</u> |
| Total Actuarial Liabilities | <u>\$8,057,006</u> | <u>\$7,503,760</u> |

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Company as of December 31, 2015, were reasonable. Mr. Ball’s total estimate was more than the appointed actuary’s estimate by \$553,246, a difference of slightly more than 7%. He concluded that the reserves of the Plan were understated as of December 31, 2015.

I recommend that an actuarial target exam be conducted on the Plan’s December 31, 2016 unpaid claims and unpaid claim adjustment expense reserves to verify that the Plan’s estimated reserves, as indicated in the 2016 Annual Statement, are adequately stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Page

- 6 I recommend the Board of Directors, through its Audit Committee, formally appoint an external auditor in accordance with the provisions of OAR 836-011-0223
- 17 I recommend the Plan properly disclose the required statutory deposit in Schedule E – Part 3 of the Annual Statement in accordance with the NAIC Health Annual Statement Instructions and include allowed securities as special deposits pursuant to requirements of ORS 731.604 and the Oregon Division of Financial Regulation
- 23 I recommend the Plan amend their custodial agreement with US Bank to include all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).
- 25 I recommend that an actuarial target exam be conducted on the Plan’s December 31, 2016 unpaid claims and unpaid claim adjustment expense reserves to verify that the Plan’s estimated reserves, as indicated in the 2016 Annual Statement, are adequately stated.

CONCLUSION

An adjustment was made to the Plan's total capital and surplus as a result of this examination, decreasing surplus by \$553,246. During the four year period covered by this examination, the surplus of the Plan has increased from \$6,059,224, as presented in the December 31, 2011, report of examination to \$7,543,038, as shown in this report. The comparative assets and liabilities are:

December 31,

| | <u>2015</u> | <u>2011</u> | <u>Change</u> |
|-------------|---------------------|---------------------|--------------------|
| Assets | \$17,417,571 | \$12,827,717 | \$4,589,854 |
| Liabilities | <u>9,874,533</u> | <u>6,768,493</u> | <u>(3,106,040)</u> |
| Surplus | <u>\$ 7,543,038</u> | <u>\$ 6,059,224</u> | <u>\$1,483,814</u> |

ACKNOWLEDGMENT

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

In addition to the undersigned, Alea Talbert-Pence, CFE, CIA, Manager, Risk and Regulatory Consulting, LLC, Khoa V. Nguyen, insurance examiner for the State of Oregon Department of Consumer and Business Services, Division of Financial Regulation and David Ball, FSA, MAAA, life and health actuary, for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated on this examination.

Respectfully submitted,

Mark A. Giffin, CFE
Lead Financial Examiner
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 Samaritan Health Plans, Inc., Corvallis, 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 Samaritan Health Plans, Inc. was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Mark A. Giffin, CFE
Lead Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2017.

Notary Public for the State of Oregon

My Commission Expires: _____