

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



REPORT OF FINANCIAL EXAMINATION  
OF  
**HEALTHPLAN OF CAREOREGON, INC.**  
**PORTLAND, OREGON**  
AS OF  
DECEMBER 31, 2019

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**HEALTH PLAN OF CAREOREGON, INC.  
PORTLAND, OREGON**

**NAIC COMPANY CODE 12277**

AS OF

DECEMBER 31, 2019

## TABLE OF CONTENTS

<b>SALUTATION</b> .....	3
<b>SCOPE OF EXAMINATION</b> .....	4
<b>COMPANY HISTORY</b> .....	5
<b>CORPORATE RECORDS</b> .....	6
<b>MANAGEMENT AND CONTROL</b> .....	7
<i>Board of Directors</i> .....	7
<i>Officers</i> .....	9
<i>Insurance Company Holding System</i> .....	10
<b>INTERCOMPANY AGREEMENTS</b> .....	11
<i>Management Agreement</i> .....	12
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	12
<b>TERRITORY AND PLAN OF OPERATION</b> .....	13
<b>GROWTH OF THE COMPANY</b> .....	13
<b>LOSS EXPERIENCE</b> .....	14
<b>REINSURANCE</b> .....	14
<b>ACCOUNTS AND RECORDS</b> .....	15
<b>STATUTORY DEPOSIT</b> .....	16
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</b> .....	16
<b>SUBSEQUENT EVENTS</b> .....	16
<b>FINANCIAL STATEMENTS</b> .....	17
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	22
<i>Note 1 – Invested Assets</i> .....	22
<i>Note 2 – Actuarial Reserves</i> .....	23
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS</b> .....	24
<b>CONCLUSION</b> .....	24
<b>ACKNOWLEDGMENT</b> .....	25
<b>AFFIDAVIT</b> .....	26

**SALUTATION**

October 23, 2020

Honorable Andrew Stolfi, 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

**HEALTH PLAN OF CAREOREGON, INC.  
315 SW Fifth Avenue, Suite 900  
Portland, Oregon 97204**

**NAIC Company Code 12277**

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

## SCOPE OF EXAMINATION

We have performed a regular, single-state, full-scope financial examination of Health Plan of CareOregon, Inc. The last examination of this health care service contractor was completed for the period ending December 31, 2016. This examination covers the three-year period of January 1, 2017, through December 31, 2019.

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

#### **Capitalization**

The Plan was initially capitalized in February 2005 by CareOregon, Inc. for \$3,000,000, with \$10 reported as capital stock and \$2,999,990 as paid-in surplus. The parent contributed an additional \$2,400,000 for start-up expenses from February to December 2005, and another \$5,000,000 in December 2005 to meet State required net worth requirements to allow the Plan to commence operations on January 1, 2006. An additional \$1,000,000 contribution was made by the parent in March 2006. Upon completion of the reorganization in 2013, the remaining \$10 in capital stock was converted to a paid-in or contributed surplus. Most recently, the parent contributed \$25,000,000 in December 2015, \$15,000,000 in 2017, and \$5,000,000 in 2018. At December 31, 2019, the Plan reported gross paid in and contributed surplus of \$56,400,000. The capitalization complied with the capital and surplus requirements of ORS 750.045.

#### **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

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

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

The Compensation Committee, as well as the Board, approves the compensation of the Chief Executive Officer annually after a formal evaluation is conducted. The CEO makes recommendations to the Committee for the other officers' compensation but ultimately, the Committee approves all compensation. This process complies with the provisions of ORS 732.320(3).

### Articles of Incorporation

The Plan last amended its Articles of Incorporation on December 22, 2016. The amended Articles changed the Plan from a licensed health care service contractor to a nonprofit public benefit corporation operating under Section 501(c)(3) of the Internal Revenue Code of 1986. The Plan's

address was also changed to reflect its current location. The restated Articles of Incorporation became effective on December 31, 2016. The Article of Incorporation conformed to the Oregon Insurance Code.

### **Bylaws**

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

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws, Article 5.1, specify that all corporate powers shall be exercised by, or under the authority of, the Board of Directors and the business and affairs of the corporation shall be managed under the direction of the Board of Directors. The Bylaws, Article 5.2, state that the number of directors of the Corporation shall be at least three (3) and no more than fifteen (15). The Bylaws, Article 5.3, state that the Board of Directors will have, in the aggregate, expertise in the areas of health care, public health, insurance, finance, law, general management, public affairs, and consumer affairs in order to assure appropriate direction and governance of the Corporation. In addition, at all times the composition of the Board shall comply with ORS 750.015, and a majority of directors shall be community members who are not employees of the Corporation. On December 31, 2019, the Plan was governed by a thirteen member Board of Directors as follows:



<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Representative</u>	<u>Member Since</u>
Woodruff J. English, II Portland, Oregon	Retired Physician	Physician	2017
Joanne Fuller Portland, Oregon	Retired Healthcare Executive	Public	2013
Damien R. Hall Portland, Oregon	Partner Ball Janik, LLP	Public	2014
Taekyung (Tec) Han Camas, Washington	CIO Vibrato Capital LLC	Public	2018
Susan M. Hennessy West Linn, Oregon	Retired Healthcare Executive	Public	2015
Eric C. Hunter Portland, Oregon	President & CEO CareOregon, Inc.	Company	2016
Brenda I. Johnson Medford, Oregon	CEO La Clinica	Public	2014
Nathalie M. Johnson Portland, Oregon	Medical Director Legacy Cancer Services	Physician	2010
Kathleen G. Jones Lake Oswego, Oregon	Retired Healthcare Executive	Public	2019
Gina F. Nikkel Wilsonville, Oregon	Executive Director Association of Oregon Counties	Public	2017
HyoSuk Rhee Portland, Oregon	Director Office of Community & Civic Life at the City of Portland	Public	2015
Glenn S. Rodriguez * Portland, Oregon	Retired Physician	Physician	2013
Robert C. Steward Canby, Oregon	Superintendent Gladstone School District	Public	2010

\* Board Chair

The Directors as a group had experience in law, insurance, accounting and management, in accordance with the provisions of ORS 731.386. The Insurance Code 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, 2019, were as follows:

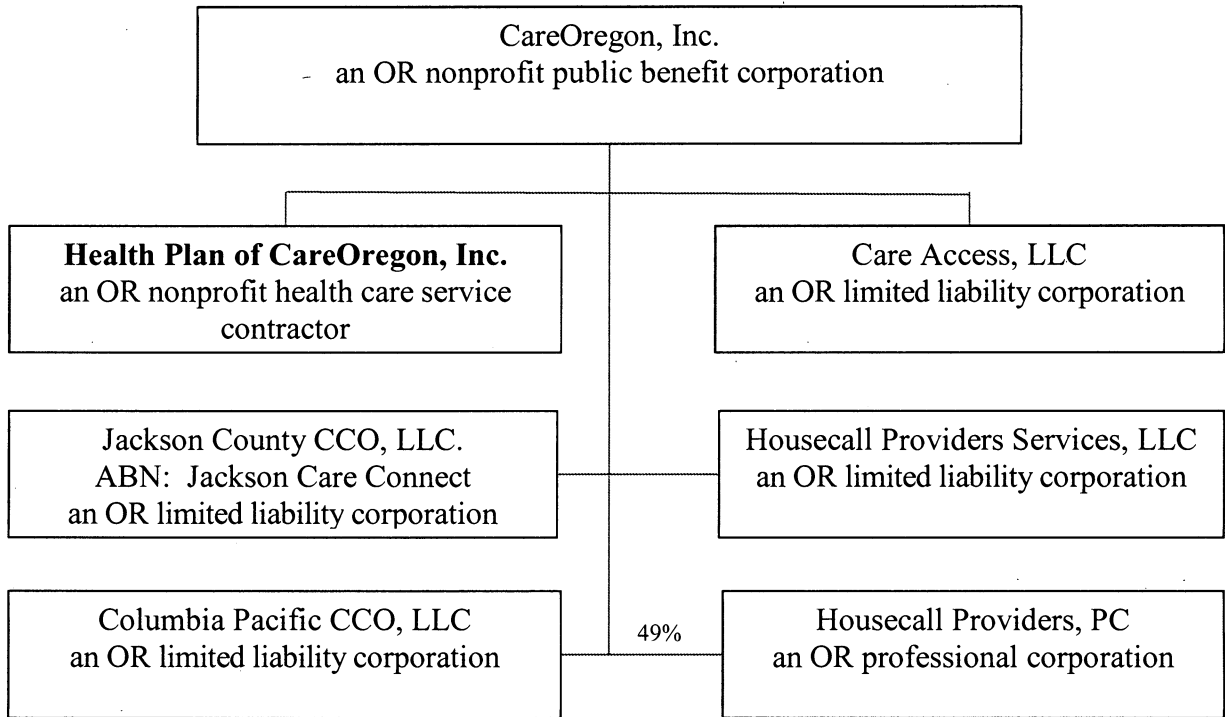
<b><u>Name</u></b>	<b><u>Title</u></b>
Eric C. Hunter	Chief Executive Officer
Amy L. Dowd	Chief Operating Officer
Teresa K. Learn	Chief Financial Officer
Amit R. Shah	Chief Medical Officer
Erin D. Fair-Taylor	Chief Legal officer

**Conflict of Interest**

The Plan's conflict of interest policy is distributed to board members annually. It applies to directors, officers, key employees, and any other individual in a position to exercise significant influence over a decision having material economic impact. An annual conflict of interest declaration and independence questionnaire is required to be signed, which acknowledges the individual's compliance with the conflict of interest policy and is used to disclose any potential conflicts. The governance committee reviews the questionnaires' responses and makes recommendations to the full board on any resolutions or actions required to mitigate any material conflicts. Based on a review of the 2019 questionnaires, no material conflicts of interest were noted.

**Insurance Company Holding System**

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



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

CareOregon, Inc. (CO), the parent company, was formed in 1993 as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The company is a charitable non-profit organization, and a fully capitated Medicaid managed health care plan. It has contracted with several Coordinated Care Organizations (CCOs) and the Oregon Health Authority (OHA) to manage care and provide health care services to members enrolled in the Oregon Health Plan. Oregon Health Plan is administered by the Oregon Health Authority of Oregon’s Department of Human Services.

Care Access LLC (CA) was formed in 2009. CA purchased a medical office building in July 2009 to improve access to primary care in the underserved Rockwood area of Gresham, Oregon.

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

Jackson County CCO, LLC was also formed in 2012 as a CCO.

Housecall Providers Services, LLC is a nonprofit organization dedicated to providing quality home-centered medical care, integrating primary, palliative, and hospice services for homebound or seriously ill community members.

Housecall Providers, PC is an Oregon professional corporation that is owned 49% by CareOregon, Inc.

The Plan filed timely and complete holding company registration statements in accordance with the provisions of ORS 732.552, ORS 732.554, ORS 732.564, and Oregon Administrative Rule (OAR) 836-27-020(1).

### **Intercompany Agreements**

The Plan operated as of December 31, 2019, under the following related party agreement:

**Management Agreement**

The management agreement with CareOregon Inc., entered into on January 14, 2005, and amended May 31, 2005, and November 15, 2007, requires CareOregon, Inc. to provide all marketing, claims, reinsurance, investments, financial and accounting systems (including financial reporting), information system and data processing, medical management, enrollment and member services, and other compliance and administrative functions to the Plan. In exchange, the Plan agrees to pay all direct expenses and all reasonable expenses for office space and equipment, including compensation, benefits, and payroll taxes paid for employees of CareOregon, Inc., expensed on behalf of the Plan. Expense invoices are prepared monthly and are due within 15 business days. CareOregon, Inc. employs all employees working for the Health Plan.

**FIDELITY BOND AND OTHER INSURANCE**

The examination of insurance coverages involved a review of the adequacy of limits and retentions and the solvency of the insurers providing the coverage. All of the Plan's insurance coverages name CareOregon, Inc. as the covered entity as all employees are employed by the parent. CareOregon, Inc. is insured up to \$3,000,000 per individual loss after a \$25,000 deductible against losses from acts of theft, forgery, money orders and counterfeit money, computer crime/fraud, and funds transfer fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2019, were found to be adequate, and included:

- |                              |                                  |
|------------------------------|----------------------------------|
| Property liability           | Errors and Omissions             |
| Commercial Auto              | Directors and Officers liability |
| Commercial general liability | Crime coverage                   |
| Employee Benefits liability  | Workers' Compensation            |

## TERRITORY AND PLAN OF OPERATION

The Plan provides health care services to its members in six counties in the State of Oregon: Clackamas, Columbia, Jackson, Multnomah, Washington, and Tillamook.. The Plan operates a Special Needs Medicare Advantage and Prescription Drug (MA-PD) plan that provides Medicare health care services to many of the Parent's Medicaid and Medicare dual-eligible members. The Plan experienced an 11.3% decrease in member months from 2018 to 2019, mainly due to the termination of its Medicare STAR plan. The Plan continues to market its Plan through brokers and an in-house sales team.

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

<b>Line of Business</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Individual hospital & medical	0	0	0	0	0
Group hospital & medical	0	0	0	0	0
Medicare supplement	0	0	0	0	0
Vision only	0	0	0	0	0
Dental only	0	0	0	0	0
FEHBP	0	0	0	0	0
Medicare	11,606	13,280	13,158	13,121	11,993
Medicaid	0	0	0	0	0
Other	0	0	0	0	0
Total enrollment	<u>11,606</u>	<u>13,280</u>	<u>13,158</u>	<u>13,121</u>	<u>11,993</u>

## GROWTH OF THE COMPANY

The growth of the Plan over the past five years is reflected in the following table. The stated amounts were obtained from the Plan's filed annual statements, except for those years in which the Division of Financial Regulation published the examination.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income</u>
2015	\$ 69,899,999	\$ 29,366,757	\$ 40,533,242	\$ (16,161,122)
2016 *	60,509,827	30,059,941	30,449,886	(8,580,841)
2017	65,807,817	35,488,811	30,319,006	(15,556,457)
2018	67,176,507	34,768,756	32,407,751	(1,803,015)
2019 *	71,568,931	30,289,029	41,279,902	8,983,173

\*Per examination

### LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Plan over the past five years.

The amounts were obtained from copies of the Plan's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	<u>(1) Total Revenues</u>	<u>(2) Total Hospital and Medical</u>	<u>(2)/(1) Medical Loss Ratio</u>	<u>(3) Claim Adjustment and General Expenses</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2015	\$ 145,294,349	\$ 144,223,455	100.3%	\$ 18,497,885	113.0%
2016 *	163,271,143	154,760,563	91.2%	24,174,270	106.0%
2017	178,061,399	166,445,997	95.0%	25,726,599	109.5%
2018	187,439,377	167,062,709	87.6%	26,277,434	101.6%
2019 *	185,115,462	151,972,653	82.1%	25,884,798	96.1%

\*Per examination

A combined claims and expense to premium ratio in excess of 100% typically indicates an underwriting loss. The Plan reported underwriting gains in 2019 and underwriting losses in 2015, 2016, 2017, and 2018.

### REINSURANCE

The Plan entered into annual Stop Loss Reinsurance Agreements with Physicians Insurance A Mutual Company (PI) (NAIC 40738). The Agreement covers both the Advantage STAR line of

business for Medicare members who are not dual eligible and the Special Needs Medicare Advantage line of business for dual-eligible members for 2017 and 2018 and only SNP for 2019. Under terms of the 2019 agreement, the Plan will cede to PI, and PI will reinsure the percentage payable of eligible expenses incurred per member per contract year that exceeds the applicable attachment point, up to any applicable maximums for the specified lines of business. Self-funded employees are not covered under the Agreement, unless they are employees for which the Plan has risk, and they are specifically listed in the above lines of business. The Agreement has a \$500,000 retention per member for both lines of business, with an individual contract yearly maximum of \$2,000,000.

The reinsurance agreements contained a proper insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

It was determined that the reinsurance agreement provided for risk transfer in accordance with the requirements of SSAP No. 61R. The Plan's reinsurance agreement requires the Plan to retain a maximum of \$350,000 per risk. In view of the Plan's total capital and surplus of \$41,279,902 on December 31, 2019, the Plan did not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders, and complied with the maximum risk retention set by 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, 2019 annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company maintains its accounting records on a modified Generally Accepted Accounting



Principles (GAAP) accrual basis of accounting and adjusts to a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of KPMG, LLP. The Company received unqualified opinions for each of the years under review.

### **STATUTORY DEPOSIT**

To satisfy Oregon's statutory deposit requirements for a health care service contractor, the Plan has on deposit a US Treasury Note at US Bank in the amount of \$300,000 (par value) with the Department of Consumer and Business Services, Division of Financial Regulation. The examiner confirmed this deposit with the Division and the Plan properly disclosed it in Schedule E – Part 3 in the 2019 Annual Statement.

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

There were no recommendations made in the 2016 report of examination and no adjustments were made to surplus as a result of the examination findings.

### **SUBSEQUENT EVENTS**

On March 11, 2020, the Novel Coronavirus Disease, COVID-19, was declared a pandemic by the World Health Organization. On March 13, 2020, a national emergency was declared in the United States concerning the COVID-19 outbreak. After those developments, the Company shifted its workforce to a remote work-from-home model, that company management has predicted will last through at least the end of 2020. The change has not immediately impacted company financials but could see future cost fluctuations related to infrastructure, employee expenses related to productivity, and network/security expenses.

Another effect of the pandemic experienced by the Company has been a decrease in claims, which could have a material impact on financial statements subsequent to the examination period. The Board of Directors meeting held July 10, 2020, noted operating results continued to be favorable as the COVID-19 pandemic kept utilization of services low. Consolidating the Plan and its parent, the year-to-date operating surplus as of May 2020 was approximately \$37 million. The Plan's CFO, Teresa Learn, indicated that the Medicare LOB reflected similar effects of lower medical costs, and the Company has accrued \$6.0 million to comply with CMS' 85% MLR Rebate requirements. It appears that the pandemic will lead to favorable financial results for 2020, but it is unclear how "pent-up" demand and changing regulatory environment may impact financials during future years.

### **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, 2019. 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

**HEALTH PLAN OF CAREOREGON, INC.  
STATEMENT OF ASSETS  
As of December 31, 2019**

Assets	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 57,421,750	\$ -	\$ 57,421,750	1
Cash, cash equivalents and short-term investments	3,094,760	-	3,094,760	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>60,516,510</u>	<u>-</u>	<u>60,516,510</u>	
Investment income due and accrued	385,100	-	385,100	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	754	-	754	
Accrued retrospective premiums	5,573,000	-	5,573,000	2
Amounts receivable related to uninsured plans	4,090,230	-	4,090,230	
Receivable from parent, affiliates and subsidiaries	12,237	-	12,237	
Health care and other amounts receivable	991,100	-	991,100	2
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 71,568,931</u>	<u>-</u>	<u>\$ 71,568,931</u>	

**HEALTH PLAN OF CAREOREGON, INC.  
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS  
As of December 31, 2019**

	Balance per Plan	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	\$ 23,635,009	\$ -	\$ 23,635,009	2
Accrued medical incentive pool and bonus amounts	-	-	-	
Unpaid claims adjustment expense	1,089,200	-	1,089,200	2
Aggregate health policy reserves	-	-	-	2
Premiums received in advance	171,737	-	171,737	
General expenses due or accrued	3,184,740	-	3,184,740	
Amounts due to parent, subsidiaries and affiliates	2,131,343	-	2,131,343	
Liability for amounts held under uninsured plans	-	-	-	
Aggregate write-ins for liabilities	<u>77,000</u>	<u>-</u>	<u>77,000</u>	
Total Liabilities	<u>\$ 30,289,029</u>	<u>\$ -</u>	<u>\$ 30,289,029</u>	
Common capital stock	\$ -	\$ -	\$ -	
Gross paid-in and contributed capital	56,400,000	-	56,400,000	
Unassigned funds (surplus)	<u>(15,120,098)</u>	<u>-</u>	<u>(15,120,098)</u>	
Surplus as regards policyholders	<u>\$ 41,279,902</u>	<u>-</u>	<u>\$ 41,279,902</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 71,568,931</u>	<u>-</u>	<u>\$ 71,568,931</u>	

**HEALTH PLAN OF CAREOREGON, INC.  
STATEMENT OF REVENUE AND EXPENSES  
For the Year Ended December 31, 2019**

	<b>Balance per Plan</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
<b>Revenue</b>				
Net premium income	\$ 184,533,096	\$ -	\$ 184,533,096	
Change in unearned premium reserves and reserves for rate credits	582,366	-	582,366	
Aggregate write-ins for health care related revenues	<u>-</u>	<u>-</u>	<u>-</u>	
Total revenue	<u>185,115,462</u>	-	<u>185,115,462</u>	
<b>Hospital and Medical:</b>				
Hospital/medical benefits	104,416,895	-	104,416,895	
Other professional services	15,255,373	-	15,255,373	
Outside referrals	11,877,538	-	11,877,538	
Emergency room and out-of-area	8,231,155	-	8,231,155	
Prescription drugs	12,346,285	-	12,346,285	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal	152,127,246	-	152,127,246	
<b>Less:</b>				
Net reinsurance recoveries	<u>154,593</u>	<u>-</u>	<u>154,593</u>	
Total medical and hospital	151,972,653	-	151,972,653	
Non-health claims	-	-	-	
Claim adjustment expenses	13,312,899	-	13,312,899	
General administrative expenses	12,571,899	-	12,571,899	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>177,857,451</u>	<u>-</u>	<u>177,857,451</u>	
Net underwriting gain or (loss)	<u>7,258,011</u>	<u>-</u>	<u>7,258,011</u>	
Net investment income earned	1,689,796	-	1,689,796	
Net realized capital gains (losses)	<u>35,366</u>	<u>-</u>	<u>35,366</u>	
Net investment gains (losses)	1,725,162	-	1,725,162	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	-	-	-	
Federal income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>	
Net income	<u>\$ 8,983,173</u>	<u>\$ -</u>	<u>\$ 8,983,173</u>	

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

	2019	2018	2017	2016
Surplus as regards policyholders, December 31, previous year	<u>\$ 32,407,749</u>	<u>\$ 30,319,004</u>	<u>\$ 30,449,885</u>	<u>\$ 40,533,242</u>
Net income (loss)	8,983,173	(1,503,015)	(15,556,457)	(8,580,841)
Change in net unrealized capital gains or (losses)	-	-	-	-
Change in net deferred income tax	-	-	-	-
Change in non-admitted assets	(111,021)	(1,408,240)	425,576	(1,502,516)
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	1	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	-	5,000,000	15,000,000	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-
Change in surplus as regards policyholders for the year	<u>8,872,153</u>	<u>2,088,745</u>	<u>(130,881)</u>	<u>(10,083,357)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 41,279,902</u>	<u>\$ 32,407,749</u>	<u>\$ 30,319,004</u>	<u>\$ 30,449,885</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

At December 31, 2019, the Plan's long-term bond investments were mainly in a diversified portfolio of US obligations, agency issued bonds and corporate issues. The Company did have a small exposure to mortgaged-backed and asset-backed securities. All of MBS/ABS issues were investment rated, with a carrying book value of \$4.6 million, which comprised 8.0% of the total long-term bond portfolio and 7.6% of all invested assets.

The Plan reported cash equivalents held in two money market funds of \$3,757,625 and cash on deposit of \$(662,865).

A comparison of the investments classes over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2015	\$ 51,540,597	\$ 6,345,676	74%	9%
2016 *	50,417,191	2,570,311	83%	4%
2017	55,749,272	4,020,031	85%	6%
2018	52,126,379	8,879,721	78%	13%
2019 *	57,421,750	3,094,760	80%	4%

\* Balance per examination

As of December 31, 2019, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, in compliance with ORS 733.580. The Board did not formally approved the investment transactions in each of the years under review, as required by ORS 733.730.

**I recommend the Board formally approve the investment transactions made by management or the external third-party investment advisor on at least an annual basis, to conform to ORS 733.730. The approval of a board resolution should be formally documented within the Board minutes of the Company.**

Effective January 26, 2005, the Plan entered into a custodial agreement with Wells Fargo Bank, NA. The agreement contained 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 Andrew Bux, 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, 2019, prepared by Mary K. Hegemann, FSA, MAAA, of Wakely Consulting Group, LLC, the Plan’s consulting actuary.

Mr. Bux 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. Based on his review, he made the following conclusion:

	My Estimate	Annual Statement
Claims Unpaid	\$ 16,300,000	\$ 23,635,009
Unpaid Claim Adjustment Expenses (CAE)	945,400	1,089,200
Premium Deficiency Reserves	<u>-</u>	<u>-</u>
Total Actuarial Liabilities	\$ 17,245,400	\$ 24,724,209

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Company as of December 31, 2019, were reasonable. For other actuarial items where an independent estimate wasn’t needed, he reviewed the memorandum and exhibits for reasonability of their methodology and assumptions and ultimately had no concerns.



## SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examination resulted no changes to the surplus amounts reported by the Plan. The following is a summary of the recommendation made in this report of examination:

Page

- 22 I recommend the Board formally approve the investment transactions made by management or the external third-party investment advisor on at least an annual basis and formally approve all deposits made in banks or banking institutions, to conform to ORS 733.730. The approval should be formally documented within the Board minutes of the Company.

## CONCLUSION

During the four year period covered by this examination, the surplus of the Plan has increased from \$30,449,886, as presented in the December 31, 2016, report of examination, to \$41,279,902 as shown in this report. Comparative assets and liabilities are:

	<u>2019</u>	December 31, <u>2016</u>	<u>Change</u>
Assets	\$ 71,568,931	\$ 60,509,827	\$ 11,059,104
Liabilities	<u>30,289,029</u>	<u>30,059,941</u>	<u>229,088</u>
Surplus	<u>\$ 41,279,902</u>	<u>\$ 30,449,886</u>	<u>\$ 10,830,016</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, Maanik Gupta, Jordan Mills, and Tho Le, CFE, insurance examiners and Andrew Bux, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination.

Respectfully submitted,

/s/ Khoa Nguyen

Khoa Nguyen, CFE, APIR  
Examiner in Charge  
Division of Financial Regulation  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON)

County of Marion)

Khoa Nguyen, CFE, APIR, being duly sworn, states as follows:

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

The affiant says nothing further.

/s/ Khoa Nguyen  
Khoa Nguyen, CFE, APIR  
Examiner In Charge  
Division of Financial Regulation  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this 21st day of December, 2020.

/s/ Lauren N. Bodine  
Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

