DEPARTMENT OF CONSUMER & BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

PACIFICSOURCE HEALTH PLANS
SPRINGFIELD, OREGON

AS OF

DEC. 31, 2022

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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SPRINGFIELD, OREGON

NAIC COMPANY CODE 54976

DEC. 31, 2022

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SALUTATION

Nov. 13, 2023

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

PACIFICSOURCE HEALTH PLANS
555 International Way
Springfield, Oregon 97477

NAIC Company Code 54976

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

SCOPE OF EXAMINATION

We have performed our single-state, full-scope examination of PacificSource Health Plans. The examination was conducted in conjunction with the examination of a subsidiary health care service contractor, PacificSource Community Health Plans, and a separate report of examination will be prepared for that entity. The last examination of this health care service contractor was completed as of Dec. 31, 2017. This examination covers the period of Jan. 1, 2018, to Dec. 31, 2022.

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 company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in ORS 731.312(1) and general information about the Company 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 Company.

COMPANY HISTORY

PacificSource Health Plans (PSHP) was founded April 12, 1933 as Pacific Hospital Association (a nonprofit corporation) under the provisions of ORS Chapter 65 by a group of physicians who staffed and operated Pacific Christian Hospital in Eugene, Oregon. It received a certificate of authority April 20, 1940. The Plan became authorized as a health care service contractor under the provisions of ORS Chapter 750. The organization grew dramatically in the 1990s as a result of material provider contracting and marketing efforts. The company formed PacificSource Foundation for Health Improvement in 1992. The foundation is a public benefit corporation organized for the purpose of providing funds for the health and welfare of underserved and vulnerable populations, especially children. The organization registered the assumed business name 'PacificSource Health Plans' in October 1994 to better reflect its mission as a health insurer. By the late 1990s, PacificSource Health Plans had become a statewide plan, providing businesses and individuals throughout Oregon with flexible health and dental insurance. The Company changed its legal name to PacificSource Health Plans in 2006. The company received licenses to transact business in Idaho in 2006, Montana in 2011, and Washington in 2017.

On Oct. 28, 2013, the division approved a Form A filing to form a new, non-insurer ultimate parent company, PacificSource. By year-end 2013, PacificSource became the sole member of PacificSource Health Plans. On Sept. 1, 2016, PacificSource and Legacy Health finalized a partnership agreement whereby a new nonprofit organization, Pacific Health Associates (PHA) was created, which, along with Legacy Health, now has a 50 percent member interest in PacificSource. PHA and Legacy Health each appointed six board members to the

PacificSource board. The PacificSource board then appointed three independent members of the community. Additionally, PacificSource administers the health plan for all of Legacy's employees and their dependents, around 22,000 in total.

Capitalization

On October 28, 2013, the Oregon Division of Financial Regulation (DFR) approved the Company's Form A filing to create a new, non-insurer ultimate parent for the holding company group. The formation of the new parent is intended to maximize return on existing capital while also increasing access to sources of commercial financing for the member companies.

The Plan has no capital stock. The corporation has one member, PacificSource, an Oregon nonprofit public benefit corporation. The Plan reported gross paid in and contributed surplus of $102,166,216, which reflected a $25 million contribution to surplus, made by PacificSource (holding company) in 2016, net of the contribution and the prior reported contributed surplus of ($2,833,784), a $55 million contribution to surplus made by PacificSource in 2019, and a $25 million contribution to surplus made by PacificSource in 2020.

Dividends and other distributions

The Plan did not pay any dividends or make any other distributions during the period examined.

CORPORATE RECORDS

Board minutes

In general, the review of the board meeting minutes of the Plan indicated the minutes supported the transactions of the Plan and clearly described the actions taken by its directors. A quorum, as defined by the Plan's bylaws, met at all of the meetings held during the period under review.

Neither the Plan's Articles nor its Bylaws authorize any specific committees. The bylaws provide for committees "designated by the board." The Plan's board has created committees that oversee and support the PacificSource Group; an Audit and Compliance Committee, an Executive Committee, a Finance Committee, a Board Governance Committee, and an Executive Compensation Committee.

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

Articles of Incorporation

The Restated Articles of Incorporation, effective Sept. 9, 2009, were amended and restated on Dec. 27, 2013, to name PacificSource as the sole member. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

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

MANAGEMENT AND CONTROL

Board of directors

The bylaws, in Article II, state the governing board of the corporation shall be known as the board of directors, said directors being referred to as trustees. The number of directors shall consist of no fewer than five members and no more than 15 members and elected annually by the sole member. As of Dec. 31, 2022, the Plan was governed by a 15-member board of directors as follows:

Name and Address	Principal Affiliation	Representative	Member Since
*Jack Arthur Friedman Portland, Oregon	Health care consultant Self-employed	Public	2020
Claire Leona Spain-Remy, MD Lakewood, Washington	Retired	Medical	2017
David Andre Vinson Austin, Texas	President and CEO Popup, Rx.	Public	2017
Mark Joseph Werner, MD Minneapolis, Minnesota	Director The Charles Group Consulting	Medical	2017
Patricia Jean Schmitt Redmond, OR	Retired	Public	2014
Roger Maxamillian Saydack Eugene, Oregon	Adjunct professor, co-trustee University of Oregon Law School	Public	2014
Edwin Eric Dahlberg Boise, Idaho	Retired	Public	2014
Richard Lee Wright, Jr. Portland, Oregon	President and CEO Market of Choice	Public	2014

Divya Sharma, MD Bend, Oregon	Physician, chief medical director LaPine Community Health Center Consultant	Medical	2012
Jeffrey Bruce Barber Georgetown, Texas	Self-employed	Public	2016
Anna Lynn Loomis Lake Oswego, Oregon	SVP, CFO Legacy Health System	Company	2018
George Joseph Brown, MD Olympia, Washington	Retired	Public	2016
Charles Zachem, III, DO Eugene, Oregon	Physician/partner Eugene-Springfield Nephrology Associates, P.C.	Medical	2018
Kathryn Golden Correia Portland, Oregon	President and CEO Legacy Health	Company	2018
DeOna Bridgeman, MD Newberg, Oregon	Medical director Davies Clinic, P.C.	Medical	2020

* Chairman

Under Oregon law, ORS 750.015, not less than one-third of the group of persons vested with the management of the affairs of a health care service contractor shall be representatives of the public who are not practicing doctors, or employees, or trustees of a participant hospital. The Plan was in compliance with this statute

Officers

Principal officers serving at Dec. 31, 2022, were as follows:

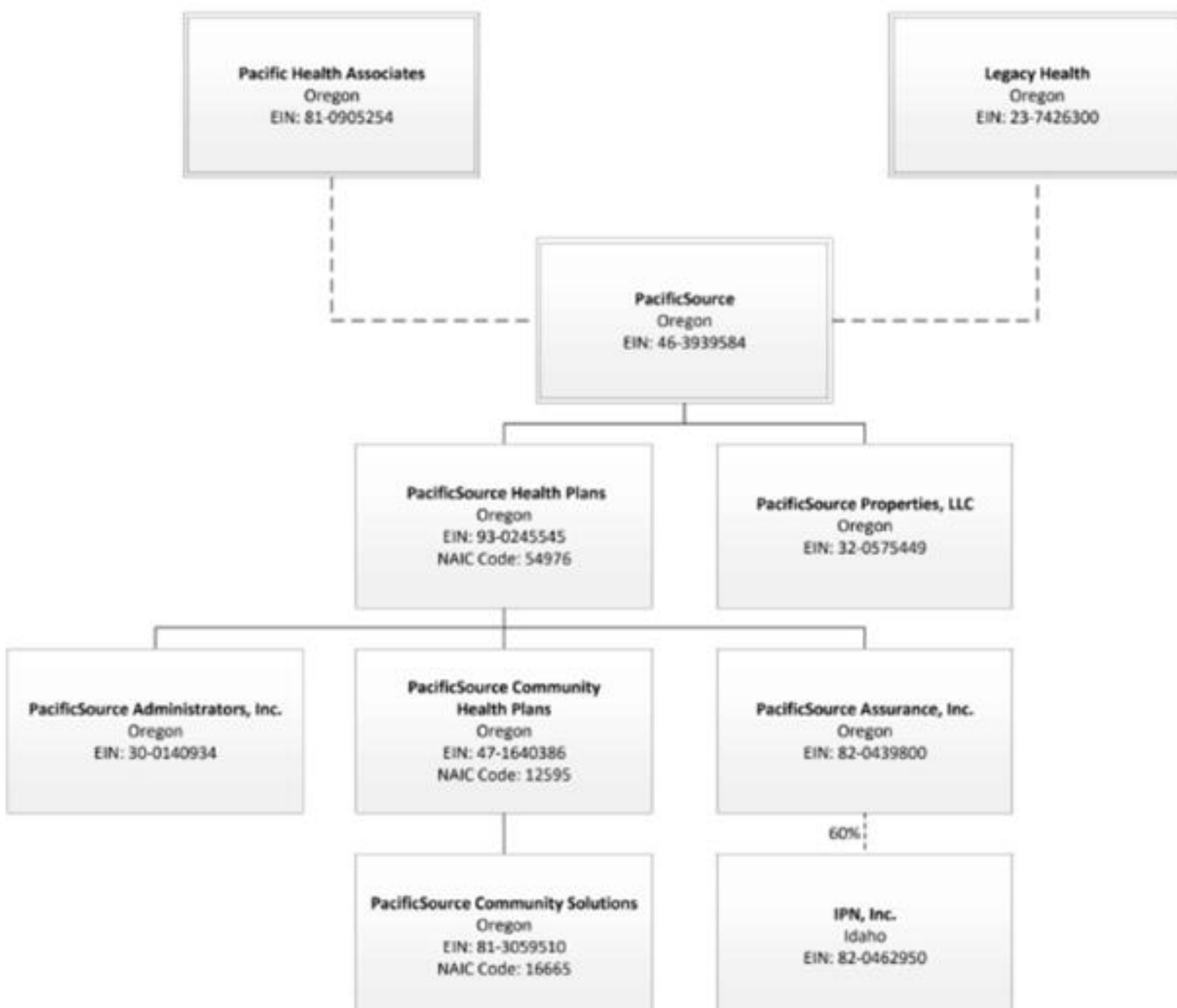
Name	Title
Kenneth P. Provencher	President and CEO
Peter F. Davidson	Executive VP and CFO
Erick T. Doolen	Executive VP and COO
Dan Stevens	Executive VP
John E. McEachern	Executive VP and chief medical officer
Jack Friedman	Board chair
Lindsey Hopper	Executive VP
Kristin E. Kernutt	Secretary
Mark Werner, MD	Chair-elect

Conflict of interest

The Plan's board adopted a formal statement of policy concerning conflict of interest for all directors, officers and responsible employees. Board members, senior officers, and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Plan's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance company holding system

The following organizational chart shows the relationship between the related entities of the Plan:



Pacific Health Associates is a 501c4 nonprofit organization designed to provide grants for charitable purposes, including grants with a focus on health and welfare of the poor and needy to lessen the burdens of government, improve patients experience with health care, to improve the health of individuals in the community, and to reduce the per capita cost of health care. Grants also support community health initiatives to increase access to care, improve community health education, and provide primary and behavioral healthcare to uninsured and underinsured individuals. It has a 50 percent corporate member interest in PacificSource.

Legacy Health is a nonprofit hospital system located in Portland, Oregon consisting of 6 primary care hospitals, a full service children's hospital, and over 70 allied clinics and outpatient facilities in Portland and Vancouver, Wash. It has a 50 percent corporate member interest in PacificSource.

PacificSource, an Oregon nonprofit public benefit corporation, was formed on July 1, 2013, under Chapter 65 of the Oregon Revised Statutes to act as the holding company for the insurance group.

PacificSource Properties, LLC is a limited liability company located in Springfield, Oregon that owns the Company’s headquarters building located at 555 International Way in Springfield.

PacificSource Health Plans (PSHP) is an Oregon domiciled health care service contractor formed in 1933 as a nonprofit public benefit corporation with members. The sole member is PacificSource. PSHP owns or controls the following entities:

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

PacificSource Community Health Plans, (PCHP), an Oregon domiciled nonprofit health care service contractor. As described in the History section above, it writes Medicare Advantage plans.

In addition to the above wholly-owned subsidiaries, PHP is the upstream parent of the following:

PacificSource Assurance, Inc., (PAI), formally named "Primary Health, Inc.," resulted from the PacificSource acquisition in Idaho in 2009. It is currently a shell company. However, in the future, PAI will likely be used for stop-loss and student health coverage in Washington. PAI has a 60 percent ownership interest in IPN, Inc.

IPN, Inc. (IPN), an Idaho for-profit corporation formerly known as Idaho Physicians Network, Inc., is owned 60 percent by PacificSource Assurance, Inc. and 40 percent by other investors. IPN is the Idaho provider network for some of Idaho's largest health plans, including United HealthCare, Aetna, Cigna, and Great West Health Plans in addition to Primary Health Plan. IPN was started in 1993, and now works with 75 national and regional based insurance companies, third-party administrators as well as local and state insurers.

PacificSource Community Solutions, Inc., (PCS), an Oregon nonprofit corporation that is 100 percent owned by PCHP, was originally formed on Nov. 7, 2003, as Central Oregon Individual Health Solutions, Inc., to contract with the Division of Medical Assistance Programs (DMAP) for the Oregon Health Plan contract. It was renamed on Jan. 12, 2011, after being acquired by

PacificSource. It qualified as a Coordinated Care Organization (CCO) to provide Oregon Health Plan coverage to individuals with limited income and assets.

INTERCOMPANY AGREEMENTS

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

Administrative services agreement between the Plan and PacificSource

Effective Dec. 31, 2013, and amended on Jan. 1, 2014; Jan. 1, 2015; Jan. 1, 2016; Sept. 1, 2016, Jan. 1, 2017, Feb. 1, 2018, Feb. 1, 2019, Feb. 1, 2020, Feb. 1, 2021, and again on Feb. 1, 2022, PacificSource agrees to provide the Plan with the following services: Executive oversight; data processing, management and storage services; claims processing services; accounting and financial management services and support; office equipment and furniture; legal services; marketing services and support; sales services and support; administrative services; health services support; provider network support; actuarial, underwriting, and analytics services; internal audit services; compliance resources; other services as mutually agreed upon by the parties.

The compensation calls for the Plan to pay a monthly amount, payable on or before the 15th of each month, however, if calendar year expenses incurred by PacificSource to provide the services exceeds the budgeted amount at the time the parties determined the base monthly fee, the excess amount can be paid on a quarterly or annual basis as PacificSource determines, within 30 days after PacificSource provides the Plan an invoice or accounting for the amount together with supporting documentation for the invoice that is satisfactory to the Plan.

The annual amendments are mainly to update the monthly compensation paid by the Plan to PacificSource for the above services provided under the Agreement for the upcoming calendar year once that year's budget is approved by the board of directors. The fourth amendment effective Sept. 1, 2016, also included a provision for PacificSource to provide sufficient office space for the current and future planned business operations of the Plan, including the associated expenses related to the provision of the office space (i.e. utilities, property tax, building management and other expenses).

Tax allocation agreement

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

License agreement

Effective Jan. 1, 2014, an agreement was entered into between PacificSource (holding company); the Plan; PacificSource Community Health Plans (PCHP); PacificSource Community Solutions (PCS) and PacificSource Administrators, Inc. (PSA). Holding company granted to the Plan; PCHP; PCS; and PSA a nonexclusive, nontransferable, license to use the mark as depicted in Exhibit A. The Plan, PCHP, PCS, and PSA agreed not to further license or assign the rights provided under the agreement to any further entities without the express, written consent of the holding company. All listed subsidiaries agreed that the holding company is the owner of the mark, and that all use of the mark shall inure to the benefit of the holding company. Subsidiaries listed agreed that it has no rights, title or interest in the mark other than the right to use the mark per the terms of the agreement. No license fee was charged for the use of the mark. The mark will be used in the ordinary course of business and will be monitored by the holding company.

Third-party administrative services agreement

Effective Jan. 1, 2020, PacificSource entered into a third-party administrative services agreement, in which the Plan will provide a variety of administrative and ministerial functions for the benefit of PacificSource's Employee Benefit Plan ("Plan"). The agreement is for one year terms that automatically renew. Terms of the agreement dictate that PacificSource retains sole and final authority to establish, maintain, control, and manage the operation of the Plan. The Plan acts as an independent contractor of PacificSource and does not assume any financial risk or obligation with respect to claims for benefits payable by PacificSource under the plan, and generally provides reimbursement services only. In exchange for services provided, the Plan receives a monthly service fee from PacificSource, as outlined in the Exhibit II Coverage Services Addendum. Fees vary based on services performed, and are generally stated on a per employee, per month, basis.

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 insurance coverages are provided through insurance policies issued by unaffiliated carriers. Coverage protected the

Plan and all affiliate and subsidiary companies as a named insured. The group as a whole is insured up to $5,000,000 per occurrence, after a $25,000 deductible per single loss, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the minimum coverage recommended by the NAIC.

Other insurance coverages in force at Dec. 31, 2022, were found to be adequate, and are as follows:

Commercial property	Managed care errors and omissions
Crime coverage	Director's and officer's liability
Commercial auto	Fiduciary
Umbrella/catastrophe liability	Employed lawyers liability
General liability	Cyber liability
Employee Practices Liability	Home office flood coverage

TERRITORY AND PLAN OF OPERATION

The Company has certificates of authority in the states of Idaho, Montana, Oregon, and Washington. The primary service areas include central and southern Oregon, and there now are regional offices in Springfield, Portland, Bend, Medford, Salem, and Hood River; Boise and Idaho Falls, in Idaho; Helena and Billings, Mont.; and Tacoma and Spokane, Wash. Due to the partnership with Legacy, the company has been able to grow its ASO business and build provider partnerships in the Portland metro area. The company has also expanded its presence in Washington through provider partnerships in Tacoma, Spokane and southwest Washington. The company has also been growing its Montana business. Its overall strategy is to enter into new areas by building relationships with providers and working together with a diversified product line. The Company is also focused on:

- Population health through provider partnerships
- Continued diversification across product lines and geographies to create relevance with providers and sustainability
- Focused quality and service excellence

- Market density through community mission, provider relations and local presence

The company currently writes traditional indemnity health and dental insurance plans, managed care plans, and administrative service contracts (ASO business) in which it processes claims for a service fee and the groups assume all or part of the risk of loss.

The Plan's health care network includes approximately 100,000 participating providers throughout Oregon, Washington, Idaho, and Montana primarily through its own provider agreements, but supplemented by some significant network agreements such as Aetna and FirstChoice Health Network (in Washington), and some ancillary provider network arrangements in vision, dental, and other areas

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

Line of Business	2022	2021	2020	2019	2018
Indiv. hospital & medical	47,887	42,572	43,114	38,259	25,690
Group hospital & medical	121,163	125,792	122,647	129,129	124,411
Medicare supplement	3	4	6	9	14
Dental	12,972	12,891	12,688	13,705	13,357
Other	69,546	66,616	66,502	67,831	65,364
Total enrollment	251,571	247,875	244,957	248,933	228,836

In 2022, the Plan reported direct business in the following states:

State	Direct Premiums Written
Idaho	$ 147,818,334
Montana	209,779,947
Oregon	660,072,903
Washington	45,202,060
Total	$1,062,873,245

GROWTH OF THE COMPANY

Growth of the Plan over the past five years is reflected in the following schedule. Amounts were derived from Plan's filed annual statements, except in those years where a report of examination was published by DFR.

Year	Assets	Liabilities	Capital and Surplus	Net Income (Loss)
2018	319,877,838	110,878,008	208,999,829	13,947,770
2019	447,736,944	157,828,858	289,908,086	24,903,203
2020	562,093,044	166,771,914	395,321,130	57,365,470
2021	582,237,662	215,441,490	366,796,172	(98,082,887)
2022*	591,216,937	195,850,736,	395,366,201	9,156,766

*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 the previous examination reports.

Year	(1) Total Revenues	(2) Total Hospital and Medical	(2)/(1) Medical Loss Ratio	(3) Claim Adjustment and General Expenses	(2)+(3)/(1) Combined Loss Ratio
2018	800,742,738	646,982,724	80.8%	97,927,342	103.6%
2019	919,629,136	790,126,326	85.9%	99,963,018	107.0%
2020	1,031,435,090	819,007,122	79.4%	92,541,241	95.3%
2021	984,365,460	907,732,879	92.2%	90,630,831	101.9%
2022 *	1,054,408,698	961,003,247	91.1%	94,732,513	99.8%

*Per examination

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

REINSURANCE

Assumed

None.

Ceded

At Dec. 31, 2022, the Plan was covered by an Excess Risk Reinsurance agreement with RGA Reinsurance Company (NAIC #93572, authorized in Oregon since May 25, 1982) covering the employer stop loss policy issued to the city of Eugene. The agreement is based on 90 percent coinsurance whereby the plan retains 10 percent of the first and second layers and 100 percent of the third and fourth layers. The annual retention is $750,000 per covered person with an annual reinsurance limit of $1,250,000 per covered person for the first layer; $2 million with an annual reinsurance limit of $3 million for the second layer; $5 million with an annual reinsurance limit of $5 million for the third layer; and $10 million with an unlimited annual reinsurance limit for the fourth layer.

The Plan also cedes business under an annual student health excess risk reinsurance agreement with RGA Reinsurance Company covering commercial members under policies classified by the Plan as Student Health Programs. The Agreement is based on 90 percent coinsurance whereby the Plan retains 10 percent of the first and second layers and 100 percent of the third layer. The annual retention is $1 million with an annual reinsurance limit of $1 million for the first layer; $2 million with an annual reinsurance limit of $3 million for the second layer; and $5 million with an unlimited annual reinsurance limit for the third layer.

The Plan also cedes business under an excess risk reinsurance agreement with RGA Reinsurance Company covering persons under the employer stop loss policy issued to the billings clinic written on an incurred in 12 months/paid in 24 months basis. The agreement is based on 100 percent coinsurance, with an annual recurring deductible per covered person of $1,500,000 and an annual unlimited reinsurance limit per covered person

The Plan also cedes business under an HMO excess risk reinsurance agreement with RGA Reinsurance Company covering commercial members who are:

- PacificSource employees under the Company's ASO plan who are also PacificSource health plan members issued the Company's certificates of coverage
- PacificSource members
- Clear One health plan members
- New West health services members

The Agreement is based on 90 percent coinsurance whereby the Plan retains 10 percent of the first and second layers and 100 percent of the third layer (with the exception of exchange members). The annual retention is $1 million for the first layer with a $1 million annual limit per member per agreement period; $2 million for the second layer with a $3 million annual limit; and $5 million for the third layer with an unlimited annual limit.

Finally, the Plan cedes business under an excess risk reinsurance agreement with RGA Reinsurance Company covering members under self-funded policies, including business produced by PacificSource Administrators, Inc., and PacificSource Health Plans. The Agreement is based on 90 percent coinsurance whereby the Plan retains 10 percent of the first and second layers and 100 percent of the third, fourth, and fifth layers. The Company retains $500,000 per agreement period per member for the first layer, $2 million for the second layer, $5 million for the third layer, $10 million for the fourth layer, and $20 million for the fifth layer. Annual reinsurance limits are $1,500,000 for the first layer, $3 million for the second layer, $5 million for the third layer, $10 million for the fourth layer, and unlimited for the fifth layer.

It was determined the reinsurance agreements clearly specified the risks taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk. The reinsurance agreements contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. The agreements also contained a settlement clause and an entire agreements clause, as required by OAR 836-012-0310 and OAR 836-012-0320, respectively.

In view of the Company's reported surplus of $395,366,201 at Dec. 31, 2022, it appears the Company does not maintain risk on any one subject in excess of 10 percent of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's Dec. 31, 2022, 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 DEPOSIT

As of the examination date, the Plan maintained a $250,000 surety bond on file with DFR, which meets the requirements of ORS 750.045(2). In addition, the Plan reported $1,089,000 in a U.S. Bank cash account as an HMO deposit held for the Idaho Department of Insurance, under line 13, columns 5 and 6 of Schedule E – Part 3 (All Other Special Deposits). The deposit was verified from the records at DFR. However, the deposit should have been recorded under line 38 for Oregon, in columns 3 and 4 of Schedule E – Part 3 (deposits for the benefit of all policyholders). Further, the deposit had a recorded value greater than the confirmation obtained from DFR, and included additional cash that was not verified by the State of Oregon as being restricted, in any way, nor for the benefit of all policyholders. Both the recording of the deposit under Idaho and the recording of additional unrestricted cash are in violation of ORS 731.574(1) and OAR 836-011-0000.

I recommend the Company only record statutory amounts for Oregon on Schedule E – Part 3, of the Annual Statement, that agree directly to deposit confirmations obtained directly through DFR. I further recommend the Company record these amounts under line 38 for Oregon, in columns 3 and 4 of Schedule E – Part 3, in accordance with ORS 731.574(1) and OAR 836-011-0000.

An additional deposit of $263,074 in cash at First Interstate Bank, on deposit with the Montana Commissioner of Securities and Insurance, was confirmed directly with the bank.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were two recommendations made as a result of the 2017 report of examination and no adjustments made to surplus.

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

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

Both recommendations have been resolved.

SUBSEQUENT EVENTS

Ken Provencher, the Company's president and CEO for 23 years, retired March 31, 2023.

Mr. Provencher worked for the Company for 28 years, and was only the fifth CEO since the Company's inception in 1933.

The Company hired Dr. John "Espi" Espinola as the new president and CEO April 3, 2023. Dr. Espinola has over 20 years of leadership experience in health care.

On March 20, 2023, the Company announced a new business collaboration with Aetna Signature Administrators, with the goal of improving health care access for the Plan's members when traveling or residing outside of Oregon, Idaho, Washington, and Montana. Aetna's preferred provider organization network has allowed the Plan's members in-network access to more than 6,000 hospitals and 1.5 million participating physicians and ancillary providers. Aetna replaced the former national partner, First Health Network, and the new partnership became effective on June 1, 2023.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of PacificSource Health Plans as of December 31, 2022:

Statement of Assets
Statement of Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Reconciliation of Surplus since the Last Examination

PACIFICSOURCE HEALTH PLANS
ASSETS
As of December 31, 2022

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 72,692,380	$ -	$ 72,692,380	1
Preferred stocks	-	-	-	
Common stocks	374,065,700	-	374,065,700	1
Cash, cash equivalents and short-term investments	62,404,586	-	62,404,586	1
Receivable for securities	42,163	-	42,163	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	$509,204,829	$ -	$509,204,829	
Investment income due and accrued	415,495	-	415,495	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	9,769,581	-	9,769,581	
Amounts recoverable from reinsurers	25,912,879	-	25,912,879	
Other amounts receivable under reinsurance contracts	40,695	-	40,695	
Amounts receivable relating to uninsured plans	75,044	-	75,044	
Current federal income tax recoverable	10,922,606	-	10,922,606	
Receivable from parent, subsidiaries and affiliates	8,195,581	-	8,195,581	
Health care and other amounts receivable	25,879,034	-	25,879,034	
Aggregate write-ins for other than invested assets	801,193	-	801,193	
Total Assets	$591,216,937	$ -	$591,216,937	

PACIFICSOURCE HEALTH PLANS
LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2022

Liabilities, Surplus and other Funds	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Claims unpaid	$142,118,722	$ -	$ 142,118,722	2
Accrued medical incentive pool and bonus amounts	1,044,155	-	1,044,155	2
Unpaid claim adjustment expenses	4,163,926	-	4,163,926	2
Aggregate health policy reserves	21,469,846	-	21,469,846	2
Premiums received in advance	16,196,474	-	16,196,474	
General expenses due or accrued	8,369,583	-	8,369,583	
Ceded reinsurance premiums payable	9,715	-	9,715	
Amounts withheld or retained for account of others	151,301	-	151,301	
Amounts due to parent, subsidiaries and affiliates	496,871	-	496,871	
Liability for amounts held under uninsured plans	1,830,143	-	1,830,143	
Total Liabilities	$195,850,736	$ -	$195,850,736	
Aggregate write-ins for special surplus funds	-	-	-	
Gross paid in and contributed surplus	102,166,216	-	102,166,216	
Unassigned funds (surplus)	293,199,985	-	293,199,985	
Surplus as regards policyholders	395,366,201	-	395,366,201	
Total Liabilities, Surplus and other Funds	$591,216,937	$ -	$591,216,937	

PACIFICSOURCE HEALTH PLANS
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2022

Revenue	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Net premium income	$ 1,054,854,081	$ -	$ 1,054,854,081	
Change in unearned premium reserve and reserve for rate credits	(445,383)	-	(445.383)	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for non-health care related revenues – gain on sale of fixed assets	-	-	-	
Total revenue	1,054,408,698	-	1,054,408,698	
Hospital and Medical				
Hospital/medical benefits	666,957,878	-	666,957,878	
Other professional services	108,941,441	-	108,941,441	
Outside referrals	45,332,482	-	45,332,482	
Emergency room and out-of-area	38,344,892	-	38,344,892	
Prescription drugs	137,774,887	-	137,774,887	
Incentive pool, withhold adjustments and bonus amounts	826,591	-	826,591	
Subtotal	998,178,171	-	998,178,171	
Less:				
Net reinsurance recoveries	37,174,924	-	37,174,924	
Total hospital and medical	961,003,247	-	961,003,247	
Non-health claims	-	-	-	
Claim adjustment expenses	55,260,740	-	55,260,740	
General administrative expenses	96,582,920	-	96,582,920	
Increase in reserves for life and accident and health contracts	(26,120,802)	-	(26,120,802)	
Total underwriting deductions	1,086,726,106	-	1,086,726,106	
Net underwriting gain or (loss)	(32,317,408)	-	(32,317,408)	
Net investment income earned	31,658,009	-	31,658,009	
Net realized capital gains (losses)	(1,817,014)	-	(1,817,014)	
Net investment gains (losses)	29,840,995	-	29,840,995	
Net gain or (loss) from agents' or premium balances charged off	(376,928)	-	(376,928)	
Aggregate write-ins for other income or expense	147,488	-	147,488	
Net income (loss) after capital gains tax and before all other federal income taxes	(2,705,853)		(2,705,853)	
Federal income taxes incurred	(11,862,619)	-	(11,862,619)	
Net income (loss)	$ 9,156,766	$ -	$ 9,156,766	

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

	2022	2021	2020	2019	2018
Surplus as regards policyholders, December 31, previous year	$366,796,170	$395,321,129	$289,908,086	$208,999,829	$165,928,186
Net income (loss)	9,156,766	(98,082,887)	57,365,470	24,903,203	13,947,770
Change in net unrealized capital gains or (losses)	22,351,909	48,231,955	30,542,672	20,533,500	7,584,142
Change in net deferred income tax	-	-	(387,600)	(412,400)	2,500,000
Change in non-admitted assets	(2,938,645)	21,325,973	(7,107,499)	(19,116,046)	17,769,518
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	-	-	25,000,000	55,000,000	-
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	-	-	-	-	- 1,270,215
Change in surplus as regards policyholders for the year	28,570,030	(28,524,959)	105,413,043	80,908,257	43,071,644
Surplus as regards policyholders, December 31, current year	$395,366,200	$366,796,170	$395,321,129	$289,908,086	$208,999,830

NOTES TO FINANCIAL STATEMENTS

Note 1 – invested assets

At year-end 2022, the Plan's long-term bond investments were in U.S. Treasury obligations, U.S. special revenue and special assessment obligations, and corporate issues. The Plan did have a small exposure to mortgaged-backed and asset-backed securities. All of MBS/ABS issues were investment rated at year-end 2022, with a carrying book value of $11.6 million comprised 16 percent of the total long-term bond portfolio, and 7.6 percent of all invested assets.

The Plan did not hold any short-term investments. Cash equivalents included two money market mutual funds purchased Dec. 30, 2022.

Common stocks included the equity in three wholly owned subsidiaries, totaling $294.8 million. The remaining balance represents the book value of publicly traded industrial and miscellaneous stocks, five exchange traded funds, and 15 separate mutual funds.

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

Year	A Bonds	B Common Stocks	C Cash and Short-term	Ratio A/ Total Assets	Ratio B/ Total Assets	Ratio C/ Total Assets
2018	108,892,660	124,187,124	49,235,772	34.0%	38.8%	15.4%
2019	128,697,461	193,591,431	39,047,572	28.7%	43.2%	8.7%
2020	124,058,726	268,766,065	72,074,817	22.1%	47.8%	12.8%
2021	136,613,188	341,443,043	29,954,952	23.4%	58.6%	5.1%
2022*	72,692,380	374,065,700	62,404,586	12.3%	63.3%	10.5%

* Balance per examination

As of Dec. 31, 2022, sufficient invested assets were invested in amply secured obligations of the U.S., the State of Oregon, or in FDIC-insured cash deposits, and the Plan was in compliance with ORS 733.580.

A review of board of director and committee minutes indicated the finance committee of the board formally approved all investment transactions for the years under review as required by ORS 733.730. The Plan uses Cardinal Investment Advisors to provide investment advisory services, including actively managing both fixed and equity portfolios in accordance with the Plan's investment policy.

Effective April 13, 2020, the Plan entered into a custodial agreement with Wells Fargo Bank N.A. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – actuarial reserves

A review of the unpaid claims and claim adjustment expense reserves for the Plan was performed by Michael D. Sink, life and health actuary for the Oregon Division of Financial

Regulation. As part of his review, he examined the supporting statements prepared by Mark Florian, FSA, MAAA, vice president and chief actuary, who prepared the Statement of Actuarial Opinion as of Dec. 31, 2022.

Mr. Sink reviewed the reconciliation of the data used in the Plan's financial statement to the data in the actuarial work papers, including the Statement of Actuarial Opinion and the Actuarial Memorandum, and found them to be consistent. Additionally, he reviewed the calculations and methodology performed by the Company in the supporting exhibits included in the Actuarial Memorandum. He also relied on the work performed by the examiners, who reviewed the underlying data used to create the annual statement filing, in addition to preparing his own independent calculations. He determined the following:

	My estimate	Annual statement
Claims unpaid	$142,118,722	$142,118,722
Accrued medical incentive pool and bonus payments	1,044,155	1,044,155
Unpaid claims adjustment expenses (CAE)	4,163,926	4,163,926
Aggregate health policy reserves	21,469,846	21,469,846
Premium deficiency reserves	-	-
Total actuarial liabilities	$168,796,649	$168,796,649

The appointed actuary opined that the reserves for unpaid claims and CAE carried by the Plan as of Dec. 31, 2022 were reasonable. Mr. Sink's total estimate agreed to the appointed actuary's estimate. He concurred that the reserves of the Plan were reasonably stated as of Dec. 31, 2022

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination. The following is a summary of the recommendations made in this report of examination:

Page:

23 I recommend the Company only record statutory amounts for Oregon on Schedule E – Part 3, of the annual statement, that agree directly to deposit confirmations obtained directly through the Oregon Division of Financial Regulation. I further recommend the Company record these amounts under line 38 for Oregon, in columns 3 and 4 of Schedule E – Part 3, in accordance with ORS 731.574(1) and OAR 836-011-0000.

CONCLUSION

During the five-year period covered by this examination, the surplus of the Plan has increased from $165,928,186 as presented in the Dec. 31, 2017, report of examination, to $395,366,201 as shown in this report. The comparative assets and liabilities are:

	December 31, 2022	2017	Change
Assets	$591,216,937	$275,156,676	$316,060,261
Liabilities	195,850,736	109,228,490	86,622,246
Surplus	$395,366,201	$165,928,186	$229,438,015

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, Jordan Mills, AFE and David Lorenz, APIR, insurance examiners, and Michael Sink, ASA, MAAA, life and health actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination. Additionally, Jan Moenck, CFE, CIA, CBA, CFSA, CISA, CIRD, partner; Darlene Lenhart-Schaeffer, CFE, CISA, financial examination supervisor; Kristina M. Gaddis, AES, CFE, CISA, financial examination manager; Mary Miller, AFE, financial examination senior associate; and Jolene Nansel, CIRD, claims/guaranty fund manager from Risk & Regulatory Consulting, LLC participated in the examination.

Respectfully submitted,

_*/s/* Mark A. Giffin______________________

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 PacificSource Health Plans, Springfield, Oregon.

2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of PacificSource Health Plans was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

_*/s/* Mark A. Giffin_____________________
Mark A. Giffin, CFE
Senior Insurance Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _29th__ day of __February___, 2024.

_*/s/* Cindy R. Engle______________
Notary Public for the State of Oregon

My Commission Expires: _July 9, 2027__