

STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**PROVIDENCE HEALTH ASSURANCE
PORTLAND, OREGON**

AS OF

DEC. 31, 2021

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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NAIC COMPANY CODE 15203

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SALUTATION

August 30, 2023

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

Dear commissioner:

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

**PROVIDENCE HEALTH ASSURANCE
4400 NE Halsey, Bldg. 2, Suite 690
Portland, Oregon 97213**

NAIC Company Code 15203

The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, full-scope, single-state examination of Providence Health Assurance (PHA or the plan). The last examination of this health care service contractor was completed as of Dec. 31, 2016. This examination covers the period from Jan. 1, 2017, through Dec. 31, 2021.

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 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 effects of such an 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 plan and its financial condition. There may be other items identified during the examination that, due to their nature, (e.g., subjective conclusions or proprietary information), are not included within the examination report, but separately communicated to other regulators and/or the plan.

COMPANY HISTORY

The plan was incorporated in Oregon on April 21, 2003, as a public benefit, nonprofit corporation. The company was formed to be a managed care organization under the Oregon Health Authority. All Medicaid business for Oregon members was transferred to the plan from its direct parent, Providence Health Plan, on Jan. 1, 2004.

During 2012, all of the plan's members were reassigned to two newly formed and authorized coordinated care organizations (CCOs), Health Share of Oregon (HSO) and Yamhill CCO. The plan then entered into an agreement with HSO to provide administrative services and assume the financial risk for the same Medicaid members that the plan previously serviced as well as future Medicaid participants assigned by HSO. The plan obtained its certificate of authority as a health care service contractor on June 14, 2013, pursuant to the requirements of ORS 750.045.

Effective Jan. 1, 2016, Providence Health Plan transferred its contract with Centers for Medicare and Medicaid Services (CMS) and related Medicare Advantage business to the plan pursuant to a novation agreement between CMS, Providence Health Plan (PHP), and the plan, together with an affiliated entity transfer agreement between PHP and the plan. All membership, assets, liabilities, receivables, payables, deferred revenue, other liabilities, and net worth associated with the Medicare Advantage Plan were transferred to the plan during the first quarter of 2016. PHP remains the sole member of the plan.

The plan received a Knox-Keene license to write Medicare Advantage in California on May 15, 2018, and received a certificate of authority to write business in Alaska on July 1, 2022.

Capitalization

The plan was initially capitalized by PHP. On Jan. 16, 2014, PHP contributed an additional \$2 million to assure the plan remained in compliance with capital and surplus requirements of ORS

750.045. In the first quarter of 2016, PHP contributed \$215,655,157 to the plan, in association with the transfer of its Medicare business to the plan.

Dividends and other distributions

During the period under examination, the plan declared and paid cash distributions to its sole member, PHP, as follows:

<u>Declared date</u>	<u>Paid date</u>	<u>Amount</u>	<u>Description</u>
5/12/2017	6/30/2017	\$ 50,000,000	Extraordinary
8/19/2020	9/11/2020	\$ 140,000,000	Extraordinary
5/28/2021	7/15/2021	\$ 150,000,000	Extraordinary

The Division of Financial Regulation approved the distributions.

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, was met at all of the meetings held during the period under review.

The plan's bylaws, in Article IV, authorize an executive committee and all other committees to be formed as are deemed necessary and appropriate. The plan's board has authorized an audit and finance committee and created a formal charter. This committee's main responsibilities are to recommend financial policies, goals, and budgets and to oversee the plan's audit, accounting and financial reporting processes and internal control systems. Other committees serving under the board include a compliance and risk committee, which oversees the plan's compliance program, including information privacy, information security, and enterprise risk management; a

governance committee, which assists the plan's board in maintaining current best practices in nonprofit corporate governance and also recommends candidates for the board; and a quality and medical management committee, which assists the board with respect to quality of care and medical management activities of the plan. These three committees also have formal charters. The actions of the various committees are summarized and reported to the board of directors during their regular meetings.

Effective July 1, 2016, the plan's re-constituted board of directors assumed oversight with regard to the compensation of its CEO and senior leaders. The plan's board approves an annual budget, which includes both salaries and compensation of certain senior leaders, which are reimbursed under the management services agreement between the plan and Providence Plan Partners (PPP). This process complies with the provisions of ORS 732.320(3).

However, the plan's appointed actuary did not directly present the actuarial opinion to the board of directors or the audit committee, as required by the NAIC Health Annual Statement Instructions. This violates Oregon Revised Statute (ORS) 731.574, and Oregon Administrative Rules (OAR) 836-011-0000.

I recommend the plan have the appointed actuary report to and directly present the actuarial opinion to the plan's board of directors or the audit committee, in accordance with ORS 731.574 and OAR 836-011-0000.

Articles of incorporation

The plan last amended its articles of incorporation on July 1, 2016. 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 July 1, 2016. No changes were made to the bylaws during the period under examination. The bylaws conformed to the Oregon Insurance Code.

MANAGEMENT AND CONTROL

Board of directors

The bylaws state the business and affairs of the corporation shall be managed and controlled by its board of directors. The articles of incorporation, under Article 6, and the bylaws, in Article I, Section 1, both state the number of directors shall be not less than five or more than 15. As of Dec. 31, 2021, the plan was governed by a six-member board of directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>	<u>Representative</u>
Isiaah Crawford Seattle, Washington	President University of Puget Sound	2016	Public
Debra A. Canales Timnath, Colorado	Executive Vice President, Chief Administrative Officer Providence St. Joseph Health	2016	Company
Donald M. Antonucci West Linn, Oregon	Chief Executive Officer Providence Health Plan	2021	Company
Rhonda M. Medows, MD * Renton, Washington	EVP – Population Health Providence St. Joseph Health	2016	Company
Joseph A. Blankenship Powder Springs, Georgia	Retired Chief Financial Officer	2018	Public
Heath G. Schiesser Austin, Texas * Board chairperson	Founding Partner Pilot Wall Group	2016	Public

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 ORS 750.015.

Officers

Principal officers serving as of Dec. 31, 2021, were as follows:

Officer	Office
Donald M. Antonucci	Chief executive officer
Daniel W. Ryan	Treasurer, chief financial officer
Michael G. White	President
Gregory D. Zamudio	Secretary, chief legal counsel
Robert A. Gluckman	Chief medical officer
Mark Jensen	Chief service operations officer
Nathan Perrizo	Chief strategy and operations officer
Aaron T. Bals	Chief compliance officer and risk officer
Bradley J. Garrigues	Chief sales and underwriting officer

Conflict of interest

Providence St. Joseph Health (PSJH) has established a code of conduct policy to help ensure it is following its ethical commitments, as well as the laws, rules, and regulations that govern its business conduct and help identify, discourage, and prevent violations. The code is distributed to all employees upon hire and covers integrity and compliance standards, legal and regulatory compliance, patient and workplace standards, reporting concerns, and security for PSJH and all subsidiaries. There is also a procedure established for employees to report any concerns or potential violations anonymously.

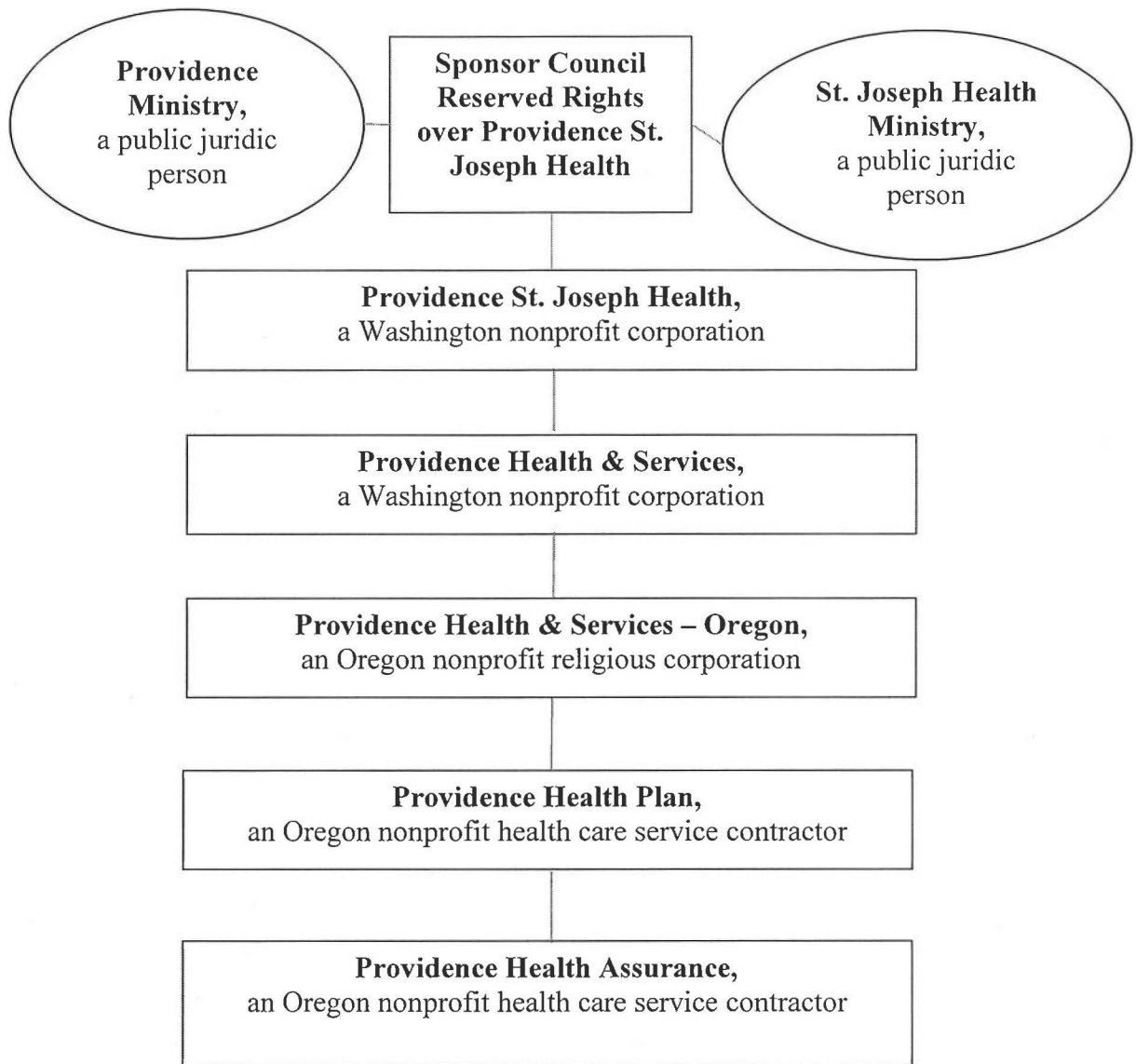
The code of conduct requires all employees at the director level and above, including board members, and senior officers to complete and sign annual conflict of interest statements. Other employees are required to complete this form based on their roles within the organization. Additionally, any employee who is aware of a personal conflict is required to complete the form voluntarily. 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

Provincial Superior and members of the Provincial Council of the Sisters of Providence, Mother Joseph Province (a Roman Catholic order based in Montreal, Canada) received permission from the Vatican in 2010 to form a five-member public juridic person under the name Providence Ministries to be the sponsor of Providence Health & Services. These members, none of whom are employed by any Providence entity, assume some of the responsibilities of the Sisters of Providence, Mother Joseph Province in governing Providence Health & Services. On July 1, 2016, the Oregon Division of Financial Regulation approved the merger of Providence Health & Services with St. Joseph Health System in California, which operates hospitals throughout Southern California. PSJH is the ultimate controlling entity of the organization. The PSJH Sponsors Council is an unincorporated body of individual persons comprised of all members of Providence Ministries and St. Joseph Health Ministry. The sponsors are the formal connection between PSJH and the Catholic Church and are responsible for assuring PSJH's Catholic identity and fidelity to its ministry.

The following abbreviated organizational chart shows the relationships with the plan within the insurance holding company system:



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

Providence St. Joseph Health (PSJH) is a Washington nonprofit corporation that operates hospitals throughout Oregon, Washington, Alaska, Montana, California, Texas, and New Mexico.

Providence Health & Services (PH&S) is a Washington nonprofit organization that operates hospitals, schools, and other facilities throughout Oregon, Washington, Alaska, Montana, and Southern California.

Providence Health & Services – Oregon (PH&S-OR), formerly Providence Health System – Oregon, is an Oregon nonprofit religious organization that operates the hospitals, and other facilities established by the Sisters of Providence in Oregon. PH&S-OR provides all employees to Providence Plan Partners at cost under a management services agreement described below. PH&S-OR is the sole member of Providence Health Plan and its direct parent.

Providence Plan Partners (PPP) is a Washington nonprofit organization that manages the company's administration and operations through a management services agreement and agency agreement.

Providence Health Plan (PHP) is an Oregon nonprofit health care service contractor. Effective Jan. 1, 2016, the plan transferred its contract with CMS and related Medicare Advantage business to Providence Health Assurance (PHA). All related membership, assets, liabilities, receivables, payables, deferred revenue, other liabilities, and net worth associated with the Medicare Advantage Plan were transferred to PHA during the first quarter of 2016. PHP is the sole member of the plan.

Performance Health Technology Ltd. (PH Tech) is an Oregon for-profit organization that provides the administrative services for the Medicaid and Medicare supplement lines of business for the plan through a management services agreement.

INTERCOMPANY AGREEMENTS

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

Management services agreement – Effective May 1, 2013, and last amended on Dec. 5, 2017, the plan entered into an agreement with Providence Plan Partners (PPP). The agreement provides overall management and administrative services, as well as provides employees to the plan, at cost. These services include staffing, accounting, financial reporting, utilization review and cost controls, professional and quality control, patient referral procedures, marketing and sales support, joint purchasing of certain services and supplies needed, and other administrative services. On a monthly basis, PPP shall calculate the cost of all services provided to the plan, and that amount shall be paid to PPP prior to the close of each month's fiscal period, or no later than within 60 days of receipt of invoice. Cost shall be determined through PPP's cost accounting by product line and shall be updated annually at a minimum. PPP is also allowed to charge additional amounts, if necessary, and if agreed upon by the plan.

Management services agreement – Effective Jan. 1, 2021, the plan entered into an agreement with Performance Health Technology Ltd. (PH Tech). Under the terms of the agreement, PH Tech agrees to provide or arrange for the provision of Medicaid administrative services to Providence Health Assurance (PHA). These services include, member services, provider services, medical management services, claims processing services, and reporting. PHA agrees to pay PH Tech the services fees stated in the agreement within 30 days of receipt of invoice.

Medicare supplement administrative services agreement – Effective Jan. 1, 2021, the plan entered into an agreement with PH Tech. Under the terms of the agreement, PH Tech agrees to provide or arrange for the provision of the Medicare supplement administrative services. These services include, member services enrollment, provider services, claims processing services, and information services. PHA agrees to pay PH Tech the services fees on a per member per month basis, stated in the agreement.

Medicare compensation and risk/incentive structure agreement – Effective and last amended on Jan. 1, 2019, the company entered into an agreement with Providence Health & Services – Oregon (PH&S-OR) to reimburse an enrollee’s medical expenses allocated into seven distinct funds: a primary fund to reimburse the primary care practitioner (PCP); a referral fund to reimburse for specific services authorized by the PCP; an institutional fund for hospital, other facility, and ancillary services; a health plan risk fund to reimburse for specific services; an end-stage renal disease (ESRD) fund to reimburse costs for those enrollees with ESRD; a durable medical equipment (DME) fund to reimburse costs for DME; and; a PCP quality fund.

100 percent quota share reinsurance agreement – Effective Jan. 1, 2021, the plan entered into a 100 percent quota share arrangement with Providence Health Plan (PHP). Under the terms of the agreement, the plan cedes 100 percent of all insurance operating balances and activities associated with Medicaid and Medicare members to PHP including those outstanding and unsettled at the effective date. The plan retains a ceding commission sufficient to cover administrative expenses.

Cash management letter of agreement – Effective July 16, 2021, The plan entered into a cash management letter of agreement with PHP. Under the terms of the agreement, PHP will provide specific cash management services to PHA. The amounts are to be settled daily.

Provider agreements – Effective Jan. 2019, the plan entered into provider services contract agreements with PH&S-OR. Under the terms of the agreement, PH&S-OR providers are contracted as part of PHA’s provider network.

There are several agreements that were not disclosed in Form B – Insurance Holding Company System Registration Statement to the Division of Financial Regulation, as required by ORS 732.552(1)(c)(E).

I recommend the plan, going forward to disclose all of its affiliated agreements in Form B – Insurance Holding Company System Registration Statement, Item 5 – Transactions and Agreements, in accordance with ORS 732.552(1)(c)(E).

Furthermore, it was noted that there were several agreements that were not filed in a timely manner with the Division of Financial Regulation, as required by ORS 732.574(2)(a)(A).

I recommend the plan, going forward, to file Form D – Notice of Proposed Transaction in a timely manner for all of its affiliated agreements to the Oregon Division of Financial Regulation for approval in accordance with ORS 732.574(2)(a)(A).

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 covering Providence St. Joseph Health , with the plan and all subsidiaries named as an affiliate. The group as a whole is insured up to \$10,000,000 per individual loss, after a \$500,000 deductible, against losses from acts of theft, forgery, or alteration, 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 Dec. 31, 2021, were found to be adequate, and included:

Commercial auto	Officers employment practices
Cyber, security and privacy liability	Crime coverage
Excess medical professional liability	Property coverage
Workers’ compensation and employer liability	Fiduciary liability

TERRITORY AND PLAN OF OPERATION

The plan offers Medicare Advantage plans including emergency coverage for illness or accidents, routine vision exams, medical advice hotline, routine physicals and preventative services, and wellness services and discount programs. Plan members have special access to a new patient appointment network with clinics in the Portland metro and Vancouver, Washington, areas. In 2021, the plan started offering Medicare supplement coverage in Oregon. The plan also participates in the Medicaid business for the Oregon Health Plan through the Oregon Health Authority.

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

<u>Line of business</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Medicare	61,586	62,786	58,361	58,055	53,183
Medicaid	55,523	51,400	56,157	53,957	36,075
Medicare supplement	<u>1,774</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total enrollment	<u>118,883</u>	<u>114,186</u>	<u>114,518</u>	<u>112,240</u>	<u>89,258</u>

GROWTH OF THE COMPANY

Growth of the plan over the past five years is reflected in the following table. Amounts were obtained from plan's filed annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and surplus</u>	<u>Net income (loss)</u>
2017	\$ 394,025,799	\$ 144,035,084	\$ 249,990,715	\$ 37,835,162
2018	416,679,084	132,272,655	284,406,429	37,106,992
2019	450,292,109	160,017,863	290,274,240	10,492,417
2020	517,446,323	311,427,231	206,019,092	49,984,742
2021*	177,577,811	113,117,717	64,460,094	6,689,205

*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.

<u>Year</u>	(1) <u>Total revenues</u>	(2) <u>Total hospital and medical</u>	(2)/(1) <u>Medical loss ratio</u>	(3) <u>Claim adjustment and general expenses</u>	(2)+(3)/(1) <u>Combined loss ratio</u>
2017	\$ 719,235,888	\$ 640,885,462	89.1%	\$ 47,704,763	95.7%
2018	824,822,053	735,175,079	89.1%	60,825,442	96.5%
2019	868,356,213	800,659,251	92.2%	77,965,054	101.2%
2020	944,159,848	813,588,351	86.2%	85,302,539	95.2%
2021*	-	832,762,427	0.0%	-	0.0%

*Per examination

A combined loss incurred and expense-to-premium ratio of more than 100 percent would indicate an underwriting loss. The plan reported an underwriting loss in 2019 and underwriting gains in 2017, 2018, and 2020. The plan reported a combined loss ratio of zero in 2021, due to the plan's quota share reinsurance agreement with its parent, PHP.

REINSURANCE

Assumed

None.

Ceded

An intercompany 100 percent quota share reinsurance agreement between Providence Health Plan (PHP) and the plan was described under intercompany agreements above.

During the period under examination, the plan entered into an annual excess of loss reinsurance agreement for each year, which was covered by annual policies with RGA Reinsurance Company (NAIC No. 93572), a Missouri domiciled life and health insurer authorized in Oregon on May 25,

1982. Under the 2021 policy, the reinsurer agrees to reimburse the plan's Medicare and Medicaid members for losses per member up to an unlimited maximum for each covered member after retention of \$400,000 and \$350,000, respectively. The plan pays a fixed per member per month premium for each Medicare and Medicaid member, due 30 days after the beginning of the month. The reinsurer shall reimburse amounts in excess of retention limits for inpatient hospital services, outpatient health services, inpatient rehabilitation services, home health services, skilled nursing facility services, out-of-area emergency services, organ transplants (plan-approved and non-plan-approved transplant contracts), drug-related services, durable medical equipment, medical transportation, and regenerative or advanced therapies.

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. Neither agreement contained a settlement clause, as required by OAR 836-012-0310, which required the reinsurer to pay all reinsured claims at least quarterly.

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

It was determined that the two reinsurance agreements did not provide for risk transfer in accordance with the requirements of the *Accounting Practices and Procedures Manual*, SSAP No. 61R, as there is no requirement for the reinsurer to pay the reinsured claims timely. ORS 731.302 states that in conducting the examination, each examiner shall consider the guidelines and procedures in the examiner handbook, or its successor publication, adopted by the National Association of Insurance Commissioners. The director may prescribe the examiner handbook or

its successor publication and employ other guidelines and procedures that the director determines to be appropriate.

I recommend the plan amend the reinsurance agreements to include provisions for risk transfer, pursuant to the provisions of SSAP No.61R and ORS 731.302.

In view of the plan's adjusted capital and surplus of \$64,460,094 at Dec. 31, 2021, it 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, 2021, 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 plan has a system in place to account for unclaimed funds and the company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

However, it was noted that the plan did not completely disclose several of the Notes to the Financial Statement in its 2021 annual statement. The incomplete disclosures are in violation with ORS 731.574 and OAR 836-011-0000.

I recommend the plan ensure all of the Notes to the Financial Statement are disclosed in its annual financial statements in accordance with the requirements of ORS 731.574(1) and OAR 836-011-0000.

STATUTORY DEPOSITS

To satisfy the statutory deposit requirements in Oregon for a health care service contractor, the plan has surety bond in the amount of \$250,000 placed with the Department of Consumer and Business Services, Division of Financial Regulation. This surety bond was confirmed with the Division of Financial Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were two recommendations made in the 2016 report of examination; however, no adjustments were made to the surplus as a result of the examination findings.

- 1) I recommend the plan develop a procedure to have the board of directors, or a responsible committee of the board, approve all investment transactions on a regular basis, and that a formal resolution be voted on by the board at the meetings, pursuant to ORS 733.730.
- 2) I recommend the plan immediately file a Form D – Notice of Proposed Transaction to have the Medicare compensation and risk/incentive agreement approved. I further recommend the plan review all its internal operations for any agreement between related parties and submit them to the Division of Financial Regulation.

The current examination noted no instances of reoccurrence of events that led to these recommendations.

SUBSEQUENT EVENTS

Effective May 2022, Nathan Perrizo, chief information officer, chief strategy and operations officer, resigned from the position. Effective August 2022, the plan hired Michael Mathias to fill the position of chief information officer. Further, the plan hired Cheryl Morrison as the chief operations officer, effective June 2022.

Effective June 2022, Michael White, president, resigned from the position.

Effective April 2023, Mark Jensen, chief service operations officer, resigned from the position.

Effective June 2023, Daniel Ryan, chief financial officer, resigned from the position. The plan hired Lina Saadzoi to fill the position.

Effective Jan. 1, 2023, the plan began writing Medicare Advantage business in Southern California.

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 Dec. 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of assets

Statement of liabilities, capital, and surplus

Statement of revenue and expenses

Reconciliation of surplus since the last examination

PROVIDENCE HEALTH ASSURANCE
ASSETS
As of Dec. 31, 2021

Assets	Balance per company	Examination adjustments	Balance per examination	Notes
Bonds	\$ 40,819,428	\$ -	\$ 40,819,428	1
Common stocks	829,628	-	829,628	1
Properties occupied by the company	-	-	-	
Cash, cash equivalents, and short-term investments	44,060,994	-	44,060,994	1
Other invested assets	5,204,000	-	5,204,000	2
Receivables for securities	9,083,743	-	9,083,743	
Aggregate write-ins for invested assets	-	-	-	
Subtotals, cash and invested assets	<u>99,997,793</u>	<u>-</u>	<u>99,997,793</u>	
Investment income due and accrued	79,095	-	79,095	
Amounts recoverable from reinsurers	77,498,561	-	77,498,561	
Receivables from parent; subsidiaries and affiliates	2,362	-	2,362	
Aggregate write-ins for other- than-invested assets	-	-	-	
Total Assets	<u><u>\$ 177,577,811</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 177,577,811</u></u>	

**PROVIDENCE HEALTH ASSURANCE
LIABILITIES, CAPITAL, AND SURPLUS
As of Dec. 31, 2021**

Liabilities, surplus, and other funds	Balance per company	Examination adjustments	Balance per examination	Notes
Claims unpaid	\$ -	\$ -	\$ -	3
Unpaid claims adjustment expenses	-	-	-	3
Aggregate life policy reserves	-	-	-	
Premiums received in advance	-	-	-	
General expenses due or accrued	207,204	-	207,204	
Ceded reinsurance premiums payable	66,269,132	-	66,269,132	
Amounts due to parent, subsidiaries and affiliates	28,383,296	-	28,383,296	
Payable for securities	18,258,085	-	18,258,085	
Aggregate write-ins for other liabilities	-	-	-	
Total liabilities	<u>\$ 113,117,717</u>	<u>\$ -</u>	<u>\$ 113,117,717</u>	
Common capital stock	\$ -	\$ -	\$ -	
Gross paid in and contributed surplus	57,255,157	-	57,255,157	
Surplus notes	-	-	-	
Unassigned funds (surplus)	7,204,937	-	7,204,937	
Surplus as regards policyholders	<u>64,460,094</u>	<u>-</u>	<u>64,460,094</u>	
Total liabilities, surplus, and other funds	<u>\$ 177,577,811</u>	<u>\$ -</u>	<u>\$ 177,577,811</u>	

PROVIDENCE HEALTH ASSURANCE
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended Dec. 31, 2021

Revenue	Balance per company	Examination adjustments	Balance per examination	Notes
Net premium income	\$ -	\$ -	\$ -	
Change in unearned premium reserves and reserve for rate credits	-	-	-	
Fee-for-service	-	-	-	
Risk revenue	-	-	-	
Aggregate write-ins for health care related revenues	-	-	-	
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	
Hospital and medical:				
Hospital/medical benefits	497,325,221	-	497,325,221	
Other professional services	135,232,165	-	135,232,165	
Outside referrals	22,235,450	-	22,235,450	
Emergency room and out-of-area	28,701,631	-	28,701,631	
Prescription drugs	95,660,310	-	95,660,310	
Aggregate write-ins for other hospital and medical	9,211,671	-	9,211,671	
Incentive pool; withhold adjustments and bonus amounts	44,395,979	-	44,395,979	
Subtotal	<u>832,762,427</u>	<u>-</u>	<u>832,762,427</u>	
Less:				
Net reinsurance recoveries	<u>832,762,427</u>	<u>-</u>	<u>832,762,427</u>	
Total hospital and medical	-	-	-	
Non-health claims	-	-	-	
Claims adjustment expenses	-	-	-	
General administrative expenses	-	-	-	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment income earned	2,155,703	-	2,155,703	
Net realized capital gains or (losses)	<u>4,533,502</u>	<u>-</u>	<u>4,533,502</u>	
Net investment gains or (losses)	<u>6,689,205</u>	<u>-</u>	<u>6,689,205</u>	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expenses	-	-	-	
Federal income taxes incurred	-	-	-	
Net income (loss)	<u>\$ 6,689,205</u>	<u>\$ -</u>	<u>\$ 6,689,205</u>	

PROVIDENCE HEALTH ASSURANCE
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended Dec. 31,

	2021	2020	2019	2018	2017
Surplus as regards policyholders, Dec. 31, previous year	\$ 206,019,092	\$ 290,274,240	\$ 284,406,429	\$ 249,990,715	\$ 262,415,145
Net income or (loss)	6,689,205	49,984,742	10,492,417	37,106,992	37,835,162
Change in net unrealized capital gains (losses)	(574,322)	424,162	295,185	(246,832)	10,170
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-	-
Change in net deferred income tax	-	-	-	-	-
Change in nonadmitted assets	2,326,119	5,335,948	(4,919,791)	(2,444,446)	(269,762)
Change in unauthorized and certified reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Transferred from surplus (stock dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	(20,400,000)	(140,000,000)	-	-	-
Transferred to capital (stock dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Distributions to parent (cash)	(129,600,000)	-	-	-	(50,000,000)
Aggregate write-ins for gains or (losses) in surplus	-	-	-	-	-
Change in surplus as regards policyholders for the year	(141,558,998)	(84,255,148)	5,867,811	34,415,714	(12,424,430)
Surplus as regards policyholders, Dec. 31, current year	<u>\$ 64,460,094</u>	<u>\$ 206,019,092</u>	<u>\$ 290,274,240</u>	<u>\$ 284,406,429</u>	<u>\$ 249,990,715</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested assets

At year-end 2021, the plan’s long-term bond investments were in U.S. Treasury securities, mortgage backed pass-through securities, and corporate issues. The plan reported a moderate exposure in mortgaged-backed or asset-backed securities in the amount of \$4,954,267, equal to 12.1 percent of total bonds and 10.8 percent of total invested assets.

The plan reported common stocks consisting of two mutual funds and short-term investments consisting of five corporate bonds maturing in less than one year. Cash on deposit was held in six accounts at U.S. Bank and one account at the Northern Trust Company.

Short-term deposits consisted of two money market mutual funds one held at U.S. Bank, and one held in the custodial account at Northern Trust Company.

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>
2017	264,185,846	3,710,183	100,565,640	67.0%	0.9%	25.5%
2018	285,028,931	8,351,676	71,510,666	68.4%	2.0%	17.2%
2019	326,331,332	6,575,134	79,907,787	72.5%	1.5%	17.7%
2020	320,733,001	10,185,469	107,065,582	62.0%	2.0%	20.7%
2021*	40,819,428	829,628	44,060,994	23.0%	0.5%	24.8%

* Balance per examination.

As of Dec. 31, 2021, sufficient assets were invested in amply secured obligations of the U.S., the State of Oregon, or in FDIC insured cash deposits in accordance with ORS 733.580.

The board of directors approved the investment transactions in each of the years under review, pursuant to ORS 733.740. The plan uses a discretionary adviser, Metropolitan West Asset Management LLC, as its investment consultant, and TCW Investment Management Company LLC, to actively manage their portfolio. Transactions are monitored by an investment officer with Providence Health & Services (PH&S), who reports the transactions to the CFOs of PH&S and the plan.

Effective Aug. 31, 2017, the plan entered into a custodial agreement with the Northern Trust Company of Chicago, Illinois. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (n).

Note 2 – Other invested assets

The other invested assets consist of a surplus note issued by a coordinated care organization, Health Share of Oregon.

Note 3 – Actuarial reserves

The plan did not report any unpaid claims and claim adjustment expense reserves on its Dec. 31, 2021 annual statement as all of its business is 100 percent assumed by Providence Health Plans. A review of the unpaid claims and claim adjustment expense reserves for Providence Health Plans was performed by Andrew Bux, FSA, MAAA, life and health actuary for the Oregon Division of Financial Regulation, which included the assumed portion from the plan. As part of the review, Mr. Bux examined the supporting statements prepared by the plan’s opining actuary, Lynn F. Dong, FSA, MAAA, principal and consulting actuary from Milliman Inc.

Mr. Bux’s review was based on the data, methods, and calculations used in the actuarial report supporting the actuarial opinion as of Dec. 31, 2021; the data, methods, and calculations used by the plan to establish its unpaid claims and claim adjustment expense reserves. He also relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing. Mr. Bux concluded that the reserves were reasonably stated as of Dec. 31, 2021.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Page

- 7 I recommend the plan have the appointed actuary report to and directly present the actuarial opinion and the actuarial memorandum to the company’s board of directors or audit committee, in accordance ORS 731.574 and OAR 836-011-0000.
- 15 I recommend the plan, going forward, disclose all of its affiliated agreements in Form B – Insurance Holding Company System Registration Statement, Item 5 – Transactions and Agreements, in accordance with ORS 732.552(1)(c)(E).
- 15 I recommend the plan, going forward, file Form D – Notice of Proposed Transaction in a timely manner for all of its affiliated agreements to the Oregon Division of Financial Regulation for approval, in accordance with ORS 732.574(2)(a)(A).
- 18 I recommend the plan amend its reinsurance agreements with RGA Reinsurance Company and PHP to include a settlement clause pursuant to the provisions of OAR 836-012-0310.
- 19 I recommend the plan amend the reinsurance agreements to include provisions for risk transfer, pursuant to the provisions of SSAP No.61R and ORS 731.302.

- 19 I recommend the plan ensure all of the Notes to the Financial Statement are disclosed in its annual financial statements in accordance with the requirements of 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 decreased from \$262,415,145 as presented in the Dec. 31, 2016, report of examination, to \$64,460,094 as shown in this report of examination. The comparative assets and liabilities are:

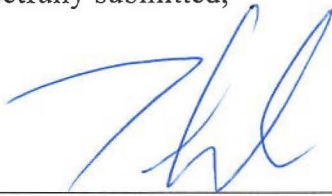
	<u>Dec. 31,</u> <u>2021</u>	<u>Dec. 31,</u> <u>2016</u>	<u>Change</u>
Assets	\$ 177,577,811	\$ 376,481,706	\$ (198,903,895)
Liabilities	<u>113,117,717</u>	<u>114,066,561</u>	<u>(948,844)</u>
Surplus	<u>\$ 64,460,094</u>	<u>\$ 262,415,145</u>	<u>\$ (197,955,051)</u>

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, Chivonne Scott, insurance examiner; and Andrew D. Bux, 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. Additionally, Robin Brown, CFE, supervising examiner; Sara Schumacher, CPA, CFE, CPCU, CIE, MCM, ARe, manager; Andy Jennings, CFE, ARM, manager; Stephen Skenyon, CISA, CPA, IT senior manager; and Jolene Nansel, CIRD, manager of Risk and Regulatory Consulting LLC participated on this examination.

Respectfully submitted,



Tho Le, CFE, PIR
Senior Financial Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Tho Le, CFE, PIR, being duly sworn, states as follows:

1. I have authority to represent the State of Oregon in the examination of Providence Health Assurance, 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 Providence Health Assurance was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Tho Le, CFE, PIR
Senior Financial Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 27 day of September, 2023.



Notary Public for the State of Oregon

My Commission Expires: Jan. 7. 2027

