



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**GREAT-WEST HEALTHCARE OF OREGON, INC.  
PORTLAND, OREGON**

**NAIC COMPANY CODE 47080**

AS OF

DECEMBER 31, 2003

## TABLE OF CONTENTS

<b><u>SCOPE OF EXAMINATION</u></b> .....	<b>4</b>
<b><u>COMPANY HISTORY</u></b> .....	<b>5</b>
<b><u>CAPITALIZATION</u></b> .....	<b>5</b>
<b><u>MANAGEMENT AND CONTROL</u></b> .....	<b>5</b>
<i>Board of Directors</i> .....	5
<i>Officers</i> .....	6
<b><u>AFFILIATED COMPANIES</u></b> .....	<b>6</b>
<b><u>CONFLICT OF INTEREST</u></b> .....	<b>7</b>
<b><u>CORPORATE RECORDS</u></b> .....	<b>7</b>
<i>Board of Director Minutes</i> .....	7
<i>Articles of Incorporation</i> .....	8
<i>Bylaws</i> .....	8
<b><u>INSURANCE HOLDING COMPANY REGISTRATION STATEMENT</u></b> .....	<b>8</b>
<b><u>REINSURANCE</u></b> .....	<b>8</b>
<i>Ceded Reinsurance</i> .....	8
<i>Insolvency Clause</i> .....	9
<i>Assumed Reinsurance</i> .....	9
<b><u>FIDELITY BONDS AND OTHER INSURANCE</u></b> .....	<b>9</b>
<b><u>RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS</u></b> .....	<b>9</b>
<b><u>TERRITORY AND PLAN OF OPERATION</u></b> .....	<b>9</b>
<b><u>GROWTH OF THE COMPANY</u></b> .....	<b>10</b>
<b><u>LOSS EXPERIENCE</u></b> .....	<b>10</b>
<b><u>ACCOUNTS AND RECORDS</u></b> .....	<b>10</b>
<i>Custodial Agreement</i> .....	11
<i>Escheat State Land Board</i> .....	12
<b><u>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</u></b> .....	<b>12</b>
<b><u>BALANCE SHEET</u></b> .....	<b>13</b>
<b><u>STATEMENT OF REVENUE AND EXPENSES</u></b> .....	<b>14</b>
<b><u>NOTES TO FINANCIAL STATEMENTS</u></b> .....	<b>15</b>
<i>Note 1 - Investments</i> .....	15
<i>Note 2 - Claims Unpaid</i> .....	15
<b><u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u></b> .....	<b>16</b>
<b><u>CONCLUSION</u></b> .....	<b>16</b>
<b><u>SUBSEQUENT EVENTS</u></b> .....	<b>17</b>
<i>Dividends to Stockholder</i> .....	17
<i>Withdrawal from HMO Market</i> .....	17
<b><u>ACKNOWLEDGMENT</u></b> .....	<b>18</b>
<b><u>AFFIDAVIT</u></b> .....	<b>19</b>

April 11, 2005

Honorable Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and pursuant to the provisions of ORS 731.300, we have examined the business affairs and financial condition of

**GREAT-WEST HEALTHCARE OF OREGON, INC.**  
**121 SW Morrison, Suite 475**  
**Portland, Oregon 97204**

**NAIC Company Code 47080**

hereinafter referred to as the "Company." The following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The examination of the Company was conducted as of December 31, 2003, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition, ability to fulfill its obligations, and compliance with the insurance code and the nature of its operations. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume and complexity of the accounting system and operations utilized by the Company. Corrective actions taken by the Company with respect to comments and/or recommendations in the previous financial report of examination as of December 31, 2000, by the Oregon Insurance Division were reviewed.

In addition to the above, work papers were reviewed that were prepared by Deloitte and Touche, LLP, the Company's independent auditors, during their audit of the Company's accounts for the year ended December 31, 2003. A portion of the auditors' work papers has been incorporated into our work papers and has been utilized in determining the scope and areas of emphasis in conducting the examination. David N. Ball, FSA, MAAA for the State of Oregon, Department of Consumer and Business Services, participated in this examination by evaluating losses and loss adjustment expenses unpaid. The results of his analyses are found under the relevant section of this report.

A letter of representation attesting to the Company's compliance with Oregon laws relating to location of accounts and records, conducting the Company affairs in nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Company's president.

### **COMPANY HISTORY**

The Company was incorporated under the laws of the State of Oregon on August 29, 1996. It was licensed as a healthcare service contractor on August 27, 1997.

### **CAPITALIZATION**

The Company was capitalized on April 29, 1997, when it issued 210 shares of common stock to One Corporation in exchange for cash totaling \$2,100,000. In 2003, One Corporation was renamed Great-West Healthcare Holdings, Inc.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

The Bylaws vest the Company's management and control in a Board of Directors consisting of three members.

Directors serving the Company at December 31, 2003, were as follows:

<b><u>Name and Address</u></b>	<b><u>Position and Association</u></b>	<b><u>Director Since</u></b>
Donna Anne Goldin* 8505 E. Orchard Road Greenwood Village, CO 80111	Senior Vice President Healthcare Operations Great West Life & Annuity Insurance Co.	1997
*Chairman of the Board	Chairman/President/Chief Exec. Officer Great-West Healthcare Holdings, Inc.	
Deborah Lynn Origer	Senior Vice President Healthcare Management Great-West Life & Annuity Insurance Co.	2003

As of December 31, 2003, the Board of Directors consisted of only the two directors listed above. ORS 750.015(1) requires at least one-third of the members of the Board of Directors be representatives of the public. The Board needs one more director to comply with its Bylaws. The additional director must be a representative of the public to comply with ORS 750.015(1). **I recommend at least one more director who is a representative of the public be appointed to the Company's Board of Directors to comply with its Bylaws and ORS 750.015(1).**

### Officers

The following officers were elected and serving at December 31, 2003:

<u>Name</u>	<u>Position</u>
Susan Wood Hallett	President
Richard George Schultz	Secretary
Glen Ray Derback	Treasurer
Donna Anne Goldin	Chairperson
Richard Gardner Swanberg, MD	Vice President and Medical Director

### AFFILIATED COMPANIES

Great-West Healthcare Holdings, Inc. (GWHCH) is the immediate parent of the Company and is a wholly owned subsidiary of Great-West Life & Annuity Insurance Company (GWL&A). GWL&A is a Colorado corporation that is a wholly owned subsidiary of GWL&A Financial, Inc. GWL&A Financial, Inc., is a subsidiary of Power Corporation of Canada, the ultimate controlling parent.

Administrative Agreement: GWL&A entered into an administrative agreement with the Company, whereby it provides employees and all the services and goods necessary to operate the Company. However, the Company remains subject to the oversight and approval of its own Board of Directors.

Tax Allocation Agreement: The Company's federal income tax return is consolidated with GWL&A Financial, Inc., and its subsidiaries. The method of allocation between the companies is subject to a written agreement approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled monthly.

### **CONFLICT OF INTEREST**

The Company has established a policy in its Bylaws that requires directors and officers disclose any material interest which conflicts with, or is likely to conflict with, official duties. The directors and officers did not complete the conflict of interest statements in 2001. In order for the Company to determine continuing compliance with its conflict of interest provisions, **I recommend key personnel at least annually sign conflict of interest statements. This recommendation is made in accordance with the NAIC Examiners Handbook and the provisions of ORS 731.302.**

### **CORPORATE RECORDS**

#### **Board of Director Minutes**

Corporate minutes were reviewed for the period under examination. The Board minutes were recorded in sufficient detail to determine the actions taken by the Board. A review of all minutes for the period under examination revealed no acts inconsistent with the Company's Articles of Incorporation or Bylaws. A quorum met at all meetings held during the period under examination.

The 2001, 2002 and 2003 Board minutes indicated that the minutes support the transactions of the Company and the actions taken by its officers. The Board also approved investments in

accordance with the provisions of ORS 733.730 and ORS 733.740 and approved officer salaries in accordance with the provisions of ORS 732.320(3).

### **Articles of Incorporation**

The Company made one amendment to the articles during the period covered by this examination.

June 2, 2003:

The Company's Board approved an amendment to the Articles of Incorporation, authorizing the Company to change its name from One Health Plan of Oregon, Inc., to Great-West Healthcare of Oregon, Inc.

The Company's Articles of Incorporation conformed with Oregon statutes.

### **Bylaws**

No amendments were made to the Bylaws during the period covered by this examination.

The Bylaws conformed with Oregon statutes.

## **INSURANCE HOLDING COMPANY REGISTRATION STATEMENT**

The Company is a member of an insurance holding company system. It made timely insurance holding company registration filings in accordance with ORS 732.552, ORS 732.554, and OAR 836-27-020(1).

## **REINSURANCE**

### **Ceded Reinsurance**

Effective January 1, 2001, the Company entered into a reinsurance agreement with GWL&A whereby it ceded a 90% quota share of all premiums, reserves and medical expenses to GWL&A under a new reinsurance agreement. This reinsurance agreement's risk retention of \$100,000 complies with ORS 731.504, since it is less than 10% of surplus as regards policyholders.

### *Insolvency Clause*

The reinsurance treaty's insolvency clause complies with the provisions of ORS 731.508(3).

### *Assumed Reinsurance*

The Company did not assume any business in 2003.

## **FIDELITY BONDS AND OTHER INSURANCE**

Insurance coverage was reviewed for adequacy of limits, retentions, and the solvency of the insurers providing the coverage. Coverage is provided through its parent's insurance policies. Under these policies the Company is insured for up to \$25,000,000 with a \$50,000,000 aggregate limit of liability against losses from acts of dishonesty and fraud by its employees. The fidelity bond coverage was found to meet the minimum coverage recommended by the NAIC. No exceptions were noted in the examination of the Company's coverage.

Other types of coverage provided the Company include:

Excess blanket catastrophe liability                      Excess umbrella - liability

Insurance coverage listed above was found to be adequate as of December 31, 2003.

## **RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS**

Since the Company has no employees, it has no retirement plans or postretirement benefits.

Employees are provided by GWL&A under an administrative agreement.

## **TERRITORY AND PLAN OF OPERATION**

The Company is authorized to write health insurance in Oregon. Independent agents throughout Oregon sell policies. Most agents sell a package of insurance products offered by GWL&A and its subsidiaries, including the Company.

## GROWTH OF THE COMPANY

The following exhibit reflects the growth of the Company since 2000. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, financial examination reports.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2000*	\$ 8,142,068	\$ 5,077,600	\$3,064,468	\$1,646,526
2001	19,858,912	15,245,559	4,613,353	351,990
2002	10,074,564	5,359,426	4,715,138	(22,202)
2003*	7,571,706	2,883,062	4,688,644	80,845

\*Per examination

## LOSS EXPERIENCE

The following exhibit reflects the loss experience of the Company since 2000. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, financial examination reports.

<u>Year</u>	(1) <u>Premium Earned</u>	(2) <u>Losses Incurred and LAE</u>	(3) <u>Other Underwriting Expenses Incurred</u>	(2)+(3)/(1) <u>Ratio</u>
2000*	\$19,782,830	\$14,895,286	\$3,570,200	93%
2001**	7,007,298	2,319,910	4,583,645	99%
2002	6,531,744	2,240,212	4,288,736	100%
2003*	3,850,924	1,974,237	1,863,809	100%

\*Per examination

\*\*In 2001 premium earned and losses incurred decreased due to the 90% quota share treaty with GWL&A.

## ACCOUNTS AND RECORDS

Disbursements were evidenced by bills, invoices or statements and all disbursements in excess of \$100 were supported by signed vouchers or related documents pursuant to the provisions of ORS 732.320. The Company presently has procedures to account for unclaimed funds as required by ORS 98.352. As of December 31, 2003, the Company had no management contract or exclusive agency contract in effect, which are prohibited by the

provisions of ORS 732.215 and ORS 732.220. However, attention is directed to the following issues as a result of this examination.

### **Custodial Agreement**

The Bank of New York (BNY) custodial agreement contains language creating a continuing lien and security interest in the assets that are the subject of the agreement. The intent of the lien is to protect the custodian against loss of amounts due from the Company; however, the lien could impede access to the account by the Company and the director if regulatory action should ever become necessary.

Such a lien violates ORS 733.580(2) and the Examiners Handbook which states, “The securities, other than those held to meet deposit requirements, shall be held subject to the instructions of the insurance company, and shall be available upon the demand of the insurance company.”

In addition the custodial agreement lacks the safeguard required by the Examiners Handbook and ORS 733.210 that requires if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the director.

**I recommend the Company revise the BNY custodial agreement to remove language that creates a lien against the assets held under the custodian arrangement and notify the Oregon Insurance Director within three business days of termination or withdrawal of 100% of the accounts assets to comply with the NAIC Examiners Handbook. These changes would bring the BNY custodial agreement in compliance with ORS 731.574, 733.210, 733.580(2) and the NAIC Examiners Handbook.**

**Escheat State Land Board**

Although stale-dated checks for the years 1998, 1999 and 2000 had been removed from the outstanding check list, only the 1998 and 1999 checks had been escheated to the State according to the unclaimed property filing. ORS 98.342 requires checks older than three years as of June 30 of the year of the October 1 filing be escheated to the Division of State Lands. **I recommend the Company comply with ORS 98.342 by escheating stale dated checks older than three years as of June 30 to the Oregon Division of State Lands.**

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

In the 2000 examination report, I recommended the Company keep a complete record of its accounts and records in Oregon to comply with ORS 732.245(1). All accounts and records are kept at the Company's parent offices at Greenwood Village, Colorado. Currently accounts and records are available online and via e-mail at the Company's office in Portland, Oregon. Hard copies are made available within a reasonable time of request at the Company's Portland office. The division has determined this complies with ORS 732.245(1).

**GREAT-WEST HEALTHCARE OF OREGON, INC.**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2003**

<b><u>ASSETS</u></b>	<b><u>Per Company</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds (Note 1)	\$3,758,617	\$0	\$3,758,617
Cash and short term investments	1,566,933		1,566,933
Investment income due and accrued	21,597		21,597
Amounts recoverable from reinsurers	<u>2,224,559</u>	<u>0</u>	<u>2,224,559</u>
Total Assets	<u>\$7,571,706</u>	<u>\$0</u>	<u>\$7,571,706</u>
<b><u>LIABILITIES, CAPITAL &amp; SURPLUS</u></b>			
Claims unpaid (Note 2)	\$ 219,451	\$0	\$ 219,451
Unpaid claims adjustment expenses	5,148		5,148
Aggregate health policy reserve	1,120		1,120
General expenses due or accrued	7,704		7,704
Federal and foreign income taxes	41,030		41,030
Net deferred tax liability	1,695		1,695
Ceded reinsurance premiums payable	2,540,618		2,540,618
Amounts due to parent, subsidiaries and affiliates	<u>66,296</u>	<u>0</u>	<u>66,296</u>
Total Liabilities	<u>\$2,883,062</u>	<u>\$0</u>	<u>\$2,883,062</u>
Common capital stock	2,100,000		2,100,000
Gross paid in and contributed surplus	1,750,000		1,750,000
Unassigned funds	<u>838,644</u>	<u>0</u>	<u>838,644</u>
Total Capital and Surplus	<u>4,688,644</u>	<u>0</u>	<u>4,688,644</u>
Total Liabilities, Capital, and Surplus	<u>\$7,571,706</u>	<u>\$0</u>	<u>\$7,571,706</u>

**GREAT-WEST HEALTHCARE OF OREGON, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**AS OF DECEMBER 31, 2003**

**UNDERWRITING INCOME**

Premiums earned	\$1,670,683
Premium reinsurance allowance income	<u>2,180,241</u>
Total Revenue	<u>3,850,924</u>
Hospital and Medical:	
Hospital/medical benefits	9,861,912
Other professional services	1,024,458
Emergency room and out of area	732,565
Prescription drugs	2,033,576
Incentive pool, withhold adjustments and bonus amounts	<u>(7,285)</u>
Subtotal	13,645,226
Less:	
Net reinsurance recoveries	12,269,898
Total hospital and medical	1,375,328
Claims adjustment expenses	598,909
General administrative expenses	1,863,809
Increase in reserves for accident and health contracts	<u>1,107</u>
Total underwriting deductions	<u>3,839,153</u>
Net underwriting gain or (loss)	<u>11,771</u>
Net investment income earned	110,119
Net realized capital gains and (losses)	<u>(15)</u>
Net investment gain or (loss)	<u>110,104</u>
Net gain or loss before federal income taxes	121,875
Federal and foreign income taxes incurred	<u>41,030</u>
Net income (loss)	<u>\$ 80,845</u>

**CAPITAL AND SURPLUS ACCOUNT**

Reserves and unassigned funds December 31, prior year	\$4,715,138
Gains and Losses to Capital and Surplus:	
Net income or (loss)	80,845
Change in net deferred income tax	(1,695)
Change in nonadmitted assets	172,469
Change in surplus notes	
Change in unauthorized reinsurance	
Aggregate write-ins for gains or (losses) to surplus	<u>(278,113)</u>
Change in reserves and unassigned funds for the year	<u>(26,494)</u>
Reserves and unassigned funds December 31, current year	<u>\$4,688,644</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Investments

Most of the Company's investments were in bonds and short-term investments. A multiyear comparison of the investments is shown below:

<b>Year</b>	<b>(1) Bonds</b>	<b>(2) Cash and Short Term Investments</b>	<b>Ratio (1/ Total Assets</b>	<b>Ratio (2/ Total Assets</b>
2000	\$4,118,160	\$2,761,844	51.0%	34.0%
2001	3,346,111	5,701,545	16.8%	28.7%
2002	2,889,686	2,846,190	28.7%	28.2%
2003	3,758,617	1,566,933	49.6%	20.7%

Investment guideline revisions and approval of investment transactions were conducted by the Board of Directors pursuant to the provisions of ORS 733.730 and such investments were properly recorded pursuant to ORS 733.740. As of December 31, 2003, invested assets of \$4,748,007 or 63% of the total assets were invested in amply secured obligations of the United States, a state, a political subdivision of this state or FDIC insured certificates of deposit as required by ORS 733.580. The amount of these investments exceeded the \$2,500,000 minimum capitalization requirement of ORS 750.045.

### Note 2 - Claims Unpaid

The Company reported claims unpaid, unpaid claim adjustment expenses, and aggregate policy reserves totaling \$219,451, \$5,148, and \$1,120, respectively. David Ball, FSA, MAAA, actuary, determined these reserves were sufficient.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Page

- 6 I recommend at least one more director who is a representative of the public be appointed to the Company's Board of Directors to comply with its Bylaws and ORS 750.015(1).
- 7 I recommend key personnel sign conflict of interest statements at least annually. This recommendation is made in accordance with the NAIC Examiners Handbook and the provisions of ORS 731.302.
- 11 I recommend the Company revise the BNY custodial agreement to remove language that creates a lien against the assets held under the custodian arrangement and notify the Oregon Insurance Director within three business days of termination or withdrawal of 100% of the accounts assets to comply with the NAIC Examiners Handbook. These changes would bring the BNY custodial agreement in compliance with ORS 731.574, 733.210, 733.580(2) and the NAIC Examiners Handbook.
- 12 I recommend the Company comply with ORS 98.342 by escheating stale dated checks older than three years as of June 30 to the Oregon Division of State Lands.

## CONCLUSION

During the three year period covered by this examination, the reserves and other funds increased from \$3,064,468 as presented in the December 31, 2000, annual statement, to \$4,688,644 as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<u>2003</u>	<b>December 31,</b> <u>2000</u>	<u>Change</u>
Assets	\$7,571,706	\$8,142,068	\$ (570,362)
Liabilities	<u>2,883,062</u>	<u>5,077,600</u>	<u>2,194,538</u>
Reserves & other funds	<u>\$4,688,644</u>	<u>\$3,064,468</u>	<u>\$1,624,176</u>

## **SUBSEQUENT EVENTS**

### **Dividends to Stockholder**

The Company submitted a request dated September 24, 2004, to pay an extraordinary dividend of \$1,000,000 in cash on November 8, 2004. Proper notification of the proposed dividend was provided pursuant to ORS 732.554 and OAR 836-027-170(1). The dividend was approved on October 12, 2004, and paid on November 8, 2004.

### **Withdrawal from HMO Market**

Effective March 1, 2005, the Company withdrew from the group health market in Oregon. It plans to continue to maintain its certificate of authority as an inactive insurer. Pursuant to the provisions of ORS 743.752(2), by electing to withdraw from the market, the Company is prohibited from offering health benefit plans in the group market in Oregon for a period of five years from the date the notice is provided to the Director. The Company is prohibited from entering the group health market in Oregon until May 19, 2009.

## ACKNOWLEDGMENT

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

In addition to the undersigned, David L. Daulton, CFE, Mark A. Giffin, CFE, and Ray W. Anderson, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

---

Mike P. Phillips, CFE, CPA, AES  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Mike P. Phillips, being duly sworn, deposes and says the preceding report of financial examination as of December 31, 2003, of Great-West Healthcare of Oregon, Inc., Portland, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

\_\_\_\_\_  
Mike P Phillips, CFE, CPA, AES  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

\_\_\_\_\_  
Notary Public for the State of Oregon  
My Commission Expires: \_\_\_\_\_