

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.  
PORTLAND, OREGON**

**NAIC COMPANY CODE 96250**

AS OF

DECEMBER 31, 1998

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May 25, 2000

Honorable Mary Neidig, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, Oregon 97301

Dear Director:

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

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.  
100 SW Market Street  
Portland, Oregon 97201**

**NAIC Company Code 96250**

hereinafter referred to as the “Company” or “Regence HMOO.” The following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

The examination of the Company was conducted as of December 31, 1998, 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 and the manner of fulfillment of its obligations, the nature of its operations, and compliance with the insurance code. 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. A review was also made of the corrective actions taken by the Company with respect to comments and/or recommendations in the previous financial report of examination as of December 31, 1995, by the Oregon Insurance Division.

In addition to the above, work papers were reviewed that were prepared by the Company's independent auditors in their audit of the Company's accounts for the year ended December 31, 1998. A portion of the auditors' work papers have been incorporated into our work papers, and have been utilized in determining the scope and areas of emphasis in conducting the examination.

Concurrent with this examination, Regence BlueCross BlueShield of Oregon, Regence Life and Health Insurance Company, Regence HMO Oregon, Health Masters of Oregon, Inc., and

Preferred Health Northwest, Inc., were also examined. There will be a separate report of financial examination for each company.

### **COMPANY HISTORY**

The Company was formed by what is now Regence BlueCross BlueShield of Oregon (Regence BCBSO) as Net Work Health Plan, Inc. On November 27, 1985, Net Work Health Plan, Inc., became incorporated as a subsidiary of Regence BCBSO with funding of one million dollars (\$1,000,000). On September 3, 1986, the Company's name was changed to Health Maintenance of Oregon, Inc. The Company received its Certificate of Authority to transact business as a domestic health care service contractor from the Oregon Insurance Division on November 19, 1986, under ORS Chapter 750. On March 2, 1987, the Company became a federally qualified, state registered, health maintenance organization.

Effective November 15, 1988, HMO Oregon (formerly known as Capitol Health Care, Inc.), entered into a "Plan and Agreement of Acquisition" with Regence BCBSO in which the terms of the agreement transferred ownership of Regence HMOO to HMO Oregon. On April 1, 1997, the Company's name changed to Regence Health Maintenance of Oregon, Inc.

On June 1, 1995, BCBSO became part of The Benchmark Group, a non-profit holding company located in Portland, Oregon. On April 1, 1997, The Benchmark Group changed its name to The Regence Group (TRG) along with Blue Cross and Blue Shield of Oregon, whose name became Regence BlueCross BlueShield of Oregon (Regence BCBSO). On this same date, the Company's name changed to Regence Health Maintenance of Oregon, Inc.

## MANAGEMENT AND CONTROL

### Board of Directors

On August 2, 1995, Regence BCBSO's Board adopted a resolution whereby, the Board of Directors of the Company and its affiliates were consolidated with the Board of Regence BCBSO. The Bylaws vest management and control of the Company in a Board of Directors consisting of not less than 11 or more than 21 members. In addition, the Bylaws specify that a majority of the Board shall be representatives of the public. Generally, directors serve terms of one year without limitation to the number of terms until the director reaches age 70. A majority of the number of directors constitutes a quorum. The Board of Directors meets all requirements of ORS 750.015. Members of the Board of Directors, duly elected and serving as of December 31, 1998, were:

| <u>Name, Affiliation and Address</u>  | <u>Representation</u> | <u>Expiration Date of Term</u> |
|---|-----------------------|--------------------------------|
| Thomas A. Bailey<br>Drs. Bailey, Hay & Cost, M.D., P.C.<br>920 Oak Street SE<br>Salem, Oregon 97301           | Medical               | April, 2000                    |
| Gerry B. Cameron<br>Chairman & CEO<br>US Bancorp<br>111 SW 5th Avenue T-31<br>Portland, Oregon 97204          | Public                | April, 2000                    |
| Larry D. Dodds<br>President<br>Portland Adventist Medical Center<br>10123 SE Market<br>Portland, Oregon 97216 | Hospital              | April, 1999                    |
| John G. King<br>President and CEO<br>Legacy Health Care System  | Hospital              | April, 2000                    |

1919 NW Lovejoy  
Portland, Oregon 97209

| <u>Name, Affiliation and Address</u>   | <u>Representation</u> | <u>Expiration Date of Term</u> |
|--|-----------------------|--------------------------------|
| William R. Lee, MD<br>Physician<br>2275 NE Doctors Drive, Suite 7<br>Bend, Oregon 97701  | Medical               | April, 2000                    |
| Charles D. McGee, MD<br>700 Bellevue #220<br>Salem, Oregon 97301   | Medical               | April, 2000                    |
| Matthew W. Prophet, Jr., PHD<br>Superintendent of Portland Public Schools,<br>Retired.<br>Consultant and Professor<br>5005 SW Humphary Park Road<br>Portland, Oregon 97221 | Public                | April, 2000                    |
| Richard G. Reiten<br>President<br>North West Natural Gas<br>1 Pacific Square<br>220 NW Second Avenue, Suite 1300<br>Portland, Oregon 97209                                 | Public                | April, 2000                    |
| Donald P. Sacco<br>President & CEO<br>Regence BlueCross BlueShield of Oregon<br>200 SW Market<br>Portland, Oregon 97207  | Employee              | April, 2000                    |
| John R. Segerstrom<br>President<br>ALX Development Corporation<br>PO Box 2115<br>Lake Oswego, Oregon 97035   | Public                | April, 2000                    |
| Dr. Ethel Simon-McWilliams<br>Associate Executive Director/CEO<br>Northwest Regional Educational Laboratory<br>101 SW Main Street, Suite 500<br>Portland, Oregon 97204     | Public                | April, 2000                    |

| <u>Name, Affiliation and Address</u>   | <u>Representation</u> | <u>Expiration Date of Term</u> |
|--|-----------------------|--------------------------------|
| Bob L. Smith<br>Chairman & CEO<br>VIP's Industries, Inc.<br>280 Liberty SE , Suite 300<br>Salem, Oregon 97301                      | Public                | April, 2000                    |
| Thaddeus R. Winnowski<br>President/CEO<br>Centennial Bank<br>1 SW Columbia Street, Ste. 900<br>Portland, Oregon 97258              | Public                | April, 2000                    |
| Richard L. Woolworth<br>Chairman of the Board<br>Regence BlueCross BlueShield of Oregon<br>200 SW Market<br>Portland, Oregon 97207 | Employee              | April, 2000                    |

### Officers

Operating management of the Company as of December 31, 1998, was under the direction of the following principal officers:

| <u>Name</u>       | <u>Office</u>                                       |
|-------------------|---|
| Donald P. Sacco   | President and Chief Executive Officer               |
| Randal C. Cline   | Senior Vice President – External Affairs            |
| Daniel J.Mallea   | Senior Vice President – Internal Operations         |
| Michael T. Mudrow | Vice President Legal, General Counsel and Secretary |
| Lisa L. Johnson   | Vice President, Chief Financial Officer & Treasurer |

### Affiliated Companies

The Company is part of a holding company system in which the Company's ultimate parent is The Regence Group (TRG). TRG is also the sole member of Regence BlueShield (formerly King

County Medical Blue Shield and Pierce County Medical Bureau), and Regence BlueCross BlueShield of Utah. In addition, TRG manages the operations of Regence BlueShield of Idaho under the terms of a long-term management services agreement.

Regence BCBSO is the sole voting member of Regence HMO Oregon. The Company's parent - Capitol Health Care Management, Inc., is a wholly owned subsidiary of Regence HMO Oregon. The Company is affiliated with Regence Life and Health Insurance Company, Preferred Health Northwest, Inc., and Associated Administrators, Inc., which are wholly owned subsidiaries of Regence BCBSO. In addition, the Company is affiliated Patrick A. Toohey & Associates, a wholly owned subsidiary of Associated Administrators Inc. The following is a description of these companies:

Regence BlueCross BlueShield of Oregon is authorized to conduct business as a health care service contractor in the states of Oregon and Washington. Also, Regence BCBSO is licensed as a foreign corporation by the Secretary of State of Idaho. Regence BCBSO's only Idaho business is Part "A" of Medicare. The company operates as a Blue Cross and Blue Shield plan subject to operational and performance standards established by the national Blue Cross and Blue Shield Association.

Regence HMO Oregon (Regence HMO) is an Oregon health care service contractor and is federally qualified as a health maintenance organization. Regence HMO conducts business throughout the State of Oregon.

Regence Life and Health Insurance Company (Regence Life and Health) is licensed to conduct the business of life and health insurance in the states of Oregon, Idaho, Montana, Washington, Alaska,

Utah, and Wyoming. In addition, on July 1, 1998, Regence Life and Health received a Certificate of Authority from the State of Ohio to transact business as a third party administrator.

Preferred Health Northwest, Inc. (PHN) is a for-profit health care service contractor. PHN was originally owned by Capitol Health Care Management, Inc., and was transferred to Regence BCBSO in 1994. At present, PHN does not write any business.

Associated Administrators, Inc. (AAI) is a wholly owned Washington corporation licensed to do business as a third party administrator.

Patrick A. Toohey & Associates is a California corporation licensed to do business as a third party administrator.

Capitol Health Care Management, Inc. (CHCM) is an Oregon business corporation which functions as a down stream holding company to own all the stocks of Regence HMO subsidiaries and to consolidate the income tax results of the subsidiaries of Regence HMO.

Health Masters of Oregon, Inc. (HMS) was originally owned by Rogue Valley Physicians Services, Inc. Under the terms and conditions of the Plan and Agreement of Acquisition, Regence BCBSO transferred the stock of Health Masters of Oregon, Inc., the wholly owned subsidiary of Rogue Valley Physicians Service, Inc., to Capitol Health Care Management, Inc. Presently this company does not write any business.

**Intercompany Agreements**

The Company entered into a management agreement with Regence HMO whereby, Regence HMO agrees to perform the operations of the Company. In return for these services, the Company agrees to pay all costs and expenses that are directly attributable to its operations. Indirect expenses are charged to the Company using a cost allocation plan.

**Subsequent Event**

Effective January 1, 1999, the Company entered into a new management agreements with Regence HMO. The new agreements do not have significant changes from the agreement that was in effect at December 31, 1998.

**MANAGEMENT AFFIRMATION**

## **CONFLICT OF INTEREST**

The Company has a conflict of interest policy that requires its officers and directors to report conflicts of interest to the Company. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts were noted.

## **CORPORATE RECORDS**

### **Board Minutes**

The review of 1996, 1997, and 1998 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. In addition, the minutes indicated the Board approves officer salaries in accordance with the provisions of ORS 732.320(3). A quorum was achieved at all meetings.

### **Articles of Incorporation**

The Articles of Incorporation were amended on August 6, 1997. The amendment to Article I changed the Company's name to Regence Health Maintenance of Oregon, Inc. The Articles of Incorporation were in conformity with Oregon statutes.

### **Bylaws**

The Bylaws were amended on three occasions during the period covered by this examination. The amendments were as follows:

August 7, 1996

Article IV was amended to assign the provider affairs committee the authority to oversee the Company's quality improvement program. Also, a section was added to Article IV for the purpose of creating a business conduct and ethical standards committee.

August 6, 1997

The Bylaws were amended to reflect its name change to Regence Health Maintenance of Oregon, Inc.

April 22, 1998

Effective January 1, 1998, the Company adopted TRG's investment policy. The TRG investment policy authorizes TRG to manage the investments of the Company subject to period review and approval by the Company's Board. As a result, the Board amended Article IV for the purpose of dissolving the Company's investment committee. In addition, Article IV was amended to formally combine the functions of the audit committee and the business conduct and ethical standards committee into an audit and compliance committee.

The Bylaws were in conformity with Oregon statutes.

**Holding Company Registration Statement**

A holding company registration statement was filed on behalf of the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-27-020(1).

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company is a named insured on the Regence BCBSO corporate insurance policies. Under these policies, the Company is insured for up to \$5,000,000 per occurrence against losses from acts of dishonesty and fraud by its employees. In addition, the Company is protected under two layers of directors and officers liability coverage for \$30,000,000.

Other insurance coverages in force at December 31, 1998, included commercial general liability, commercial property, umbrella liability, errors & omissions, computer crime, commercial automobile, and fiduciary liability. All coverages were found to be adequate as of December 31, 1998.

### **TERRITORY AND PLAN OF OPERATION**

The Company transacts business as a health care service contractor in four geographic areas; Washington, Multnomah and Clackamas counties in Oregon and Clark County in Washington. The Company contracts with various independent physicians associations to provide health care services. Physician's fees are the lesser of each physician's usual and customary fees or the fee schedule maximum as established by the Company.

The Company also contracts with participating hospitals that provide services to plan members with reimbursement based on negotiated per diem rates, diagnosis related groups, a negotiated discount from billed charges, or at hospital's usual and customary rates.

Under the terms of the contract with participating providers, a percentage of their fees are retained by the Company risk pool reserve, to be returned to them following the end of the Company's fiscal year. Payments from the risk pool reserves may be limited by payment of health care costs to providers in excess of the agreed-upon medical target loss ratio as stipulated in the participating provider contracts.

### **PENSION PLANS AND OTHER EMPLOYEE BENEFITS**

The Company does not have any direct employees. A management agreement between the Company and Regence BCBSO provides that all administrative services are provided by employees of Regence BCBSO which provides certain retiree health and life insurance post-retirement benefits. Although costs for such benefits are allocated to it, the Company maintains no liabilities for such benefits. Such liabilities are held solely by Regence BCBSO. Regence BCBSO provides the following benefits to its employees:

#### **Retirement Plan**

Regence BCBSO has a defined benefit pension plan covering substantially all permanent full-time employees having one or more years of service. The benefits are based on years of service and the employee's final average compensation. Regence BCBSO's funding and accounting policy is to contribute annually the minimum amount required by applicable regulations plus such additional amounts as Regence BCBSO may determine to be appropriate and charge such contributions to expense in the year they are deductible for income tax purposes. Effective December 31, 1997, Regence BCBSO's defined benefit plan was merged into TRG's defined benefit plan. There was no material effect on Regence BCBSO as a result of this plan merger.

### **Employee Thrift Plan**

Effective January 1, 1997, Regence BCBSO adopted TRG's employee savings plan (401(k)). The thrift plan (the Plan) provides that employees who have completed at least one year of service are eligible and may contribute up to 19% of their salaries to the Plan. Regence BCBSO matches contributions up to 50% for each dollar an employee contributes up to six percent of the employee's compensation.

### **Post-retirement Benefits**

Regence BCBSO provides certain health care and life insurance benefits for retired employees with ten or more years of continuous service in a post-retirement health care and life insurance plan. Substantially all of Regence BCBSO's employees may become eligible for those benefits if they reach early retirement age of 55 while working for Regence BCBSO. Effective December 31, 1997, Regence BCBSO adopted TRG's post-retirement health plan.

### **Supplemental Retirement Plan**

Effective December 31, 1997, Regence BCBSO's supplemental retirement plan was merged into The Regence Group's supplemental retirement plan. The plan is provided to the president and senior officers of Regence BCBSO. The Company does not fund this supplemental retirement plan. According to the terms of the plan, a participant's monthly retirement benefit on a normal retirement would be the final pay percentage times final pay reduced by the qualified plan offset and primary social security benefits.

## **GROWTH OF THE COMPANY**

The growth of the Company since the last financial examination is reflected in the following schedule.

The stated amounts were derived from Company's filed annual statements, except in those years where a triennial report of examination has been filed with the Oregon Insurance Division.

| <u>Year</u> | <u>Assets</u> | <u>Liabilities</u> | <u>Net Worth</u> | <u>Net Income (Loss)</u> |
|-------------|---------------|--------------------|------------------|--------------------------|
| 1995        | \$19,046,343  | \$4,541,666        | \$14,504,677     | \$ 494,953               |
| 1996        | 19,144,655    | 4,766,573          | 14,378,082       | (840,186)                |
| 1997        | 17,280,842    | 4,102,695          | 13,178,147       | 466,192                  |
| 1998*       | 17,041,866    | 3,945,666          | 13,096,200       | (393,117)                |

\*Per examination

The Company's net worth dropped approximately \$1.2 million in 1997 primarily as a result of unrealized capital losses on investments.

### LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Company since 1995. The amounts were compiled from the Company's filed annual statements.

| <u>Year</u> | (1)<br><u>Administrative, Hospital<br/>&amp; Medical Expenses</u> | (2)<br><u>Net<br/>Premiums</u> | (1/2)<br><u>Loss<br/>Ratio</u> |
|-------------|---|--------------------------------|--------------------------------|
| 1995*       | \$25,763,046  | \$25,041,241                   | 102.9%                         |
| 1996        | 24,813,019  | 22,901,123                     | 108.3%                         |
| 1997        | 19,887,265  | 18,173,200                     | 109.4%                         |
| 1998*       | 19,333,799  | 17,659,254                     | 109.5%                         |

\*Per examination

A combined administrative, hospital and medical expenses expense to premium ratio more than 100% typically indicates an underwriting loss. As indicated from the ratio column, an underwriting loss occurred in all of the years covered by this examination.

### **INVESTMENTS**

Approximately 86% of the Company's assets were invested in bonds at December 31, 1998. The Company's bond portfolio is primarily comprised of high quality investments in corporate bonds, US government instruments, and special revenue bonds, with maturities between one to ten years.

The Company's investments included a deposit with the Oregon Insurance Division, Department of Consumer and Business Services, in the sum of \$250,000 pursuant to the provisions of ORS 750.045(2). The deposit was verified from the records of the Insurance Division.

In addition, the Company also maintains a deposit in the amount of \$500,000 with the Washington State Insurance Commissioner's office.

### **REINSURANCE**

The Company has an excess of loss agreement with Regence BCBSO whereby, Regence BCBSO assumes 100% of the Company's losses related to its commercial business above \$200,000. In accordance with the terms of the agreement, The Company agrees to pay Regence BCBSO a premium on a per member, per month, basis for this reinsurance coverage.

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3), as required to take reserve credits for reinsurance ceded. In addition, the Company does not retain risk on any one subject of insurance in an amount exceeding 10% of its surplus pursuant to the provisions of ORS 731.504.

### **ACCOUNTS AND RECORDS**

The Company's records and source documentation supported the amounts presented in the Company's December 31, 1998, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. In addition, books, records and investments were held within the State of Oregon pursuant to the provisions of ORS 732.245. However, the following issues were noted a result of this examination:

#### **Claims Payable**

The DCBS actuary, Ralph Kopp, FSA, MAAA, performed an examination of the Company's claims payable and claims adjustment expense liabilities as of December 31, 1998. The scope of his examination included a review of the Company's valuation methodology, reserving assumptions, and external actuarial reports. In addition, he performed recalculations for material liability items. Based on these procedures and actual subsequent claims paid data, he concluded that the liability for claims payable at December 31, 1998, was understated by \$442,741. Due to the immaterial nature of this issue with respect to the Company's December 31, 1998 net worth, no adjustment was made as a result of this examination. The detailed results of the actuarial findings are summarized in the actuarial examination letter contained in the supporting work papers.

### **Accrued Medical Incentive Pool**

The DCBS actuary examined the Company's liability for its accrued medical incentive pool and noted the following:

Under the terms of the Company's agreements, providers share financial risk in the event that health care costs exceed the health care budget, and they share financial reward in the event of a health care surplus. This provides an incentive to the providers for controlling claim costs. The \$196,875 liability represents the amount of incentive dollars available for refund to providers.

If health care costs exceed budgeted amounts, the risk withholds are used to offset the deficit or risk withhold, whichever is less. If health care costs are less than budgeted amounts, incentive amounts and risk withholds are paid to the provider.

DCBS compared the Company's booked estimate to actual disbursements made through June 1999. The amount of the June 30, 1999, development was (\$232,992), \$429,867 less than the year-end 1998 liability. The overstated liability was immaterial with respect to the Company's December 31, 1998, net worth, as a result, no adjustment was made as a result of this examination.

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

The Company has complied with all recommendations made in the 1995 report of examination.

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.**  
**STATEMENT OF ASSETS, LIABILITIES & NET WORTH**  
**As of December 31, 1998**

| <b><u>ASSETS</u></b>                        | <b><u>Per Company</u></b> | <b><u>Examination</u></b> | <b><u>Per</u></b>         |
|---|---------------------------|---------------------------|---------------------------|
|   |                           | <b><u>Adjustments</u></b> | <b><u>Examination</u></b> |
| Cash and short-term investments             | \$ 1,408,433              |                           | \$ 1,408,433              |
| Premiums receivable                         | 117,381                   |                           | 117,381                   |
| Investment income due and accrued           | 154,100                   |                           | 154,100                   |
| Amounts due from affiliates                 | 646,451                   |                           | 646,451                   |
| Receivable for securities                   | 5,372                     |                           | 5,372                     |
| Bonds                                       | <u>14,710,129</u>         |                           | <u>14,710,129</u>         |
| Total Assets                                | <u>17,041,866</u>         |                           | <u>17,041,866</u>         |
| <br><b><u>LIABILITIES</u></b>               |                           |                           |                           |
| Accounts payable                            | 171,502                   |                           | 171,502                   |
| Claims payable                              | 2,831,359                 |                           | 2,831,359                 |
| Accrued medical incentive pool              | 196,875                   |                           | 196,875                   |
| Unearned premiums                           | 270,147                   |                           | 270,147                   |
| Amounts due to affiliates                   | 68,259                    |                           | 68,259                    |
| Aggregate write-ins for current liabilities | <u>407,524</u>            |                           | <u>407,524</u>            |
| Total Liabilities                           | <u>3,945,666</u>          |                           | <u>3,945,666</u>          |
| <br><b><u>NET WORTH</u></b>                 |                           |                           |                           |
| Common stock                                | 4,250,000                 |                           | 4,250,000                 |
| Paid in surplus                             | 125,636                   |                           | 125,636                   |
| Retained earning                            | 6,470,564                 |                           | 6,470,564                 |
| Aggregate write-ins                         | <u>2,250,000</u>          |                           | <u>2,250,000</u>          |
| Total Net Worth                             | <u>13,096,200</u>         |                           | <u>13,096,200</u>         |
| Total Net Worth and Liabilities             | <u>\$17,041,866</u>       |                           | <u>\$17,041,866</u>       |

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.**  
**STATEMENT OF REVENUE, EXPENSES AND NET WORTH**  
**For the Year Ended December 31, 1998**

**REVENUES**

|  |                   |
|--|-------------------|
| Premiums                               | \$17,659,254      |
| Investment                             | 1,038,083         |
| Aggregate write-ins for other revenues | <u>5,335</u>      |
| Total Revenues                         | <u>18,702,672</u> |

**EXPENSES**

Medical and hospital:

|   |                   |
|---|-------------------|
| Physician services  | 5,852,590         |
| Other professional services                                 | 3,402,193         |
| Emergency room and out-of-areas                             | 418,487           |
| Inpatient   | 4,216,653         |
| Incentive pool and withhold adjustment                      | (566,952)         |
| Aggregate write-ins for other medical and hospital expenses | <u>2,392,687</u>  |
| Subtotal  | <u>15,715,658</u> |

Less:

|                            |                |
|----------------------------|----------------|
| Net reinsurance recoveries | (12,000)       |
| COB and subrogation        | <u>132,222</u> |
| Total Medical and Hospital | 120,222        |

|                                  |                    |
|----------------------------------|--------------------|
| Administration expenses          | <u>3,738,363</u>   |
| Total Expenses                   | 19,333,799         |
| Income                           | (631,127)          |
| Provision for Federal income tax | <u>(238,010)</u>   |
| Net Income                       | <u>\$(393,117)</u> |

**NET WORTH**

|  |                   |
|--|-------------------|
| Net worth beginning of year                              | 13,178,147        |
| Net income   | (393,117)         |
| Change in nonadmitted assets                             | 311,170           |
| Aggregate write-ins for changes in retained earnings     | (750,000)         |
| Aggregate write-ins for changes in other net worth items | <u>750,000</u>    |
| Net worth end of year                                    | <u>13,096,200</u> |



## CONCLUSION

During the three year period covered by this examination, the net worth of the Company has decreased from \$14,504,677, as presented in the December 31, 1995, report of examination to \$13,096,200, as shown in this report of examination.

The comparative assets and liabilities are shown below:

|             | <b><u>1998</u></b>  | <b>December 31,</b> | <b><u>1995</u></b>  | <b><u>Change</u></b> |
|-------------|---------------------|---------------------|---------------------|----------------------|
| Assets      | \$17,041,866        |                     | \$19,046,343        | \$(2,004,477)        |
| Liabilities | <u>3,945,666</u>    |                     | <u>4,541,666</u>    | <u>(596,000)</u>     |
| Net Worth   | <u>\$13,096,200</u> |                     | <u>\$14,504,677</u> | <u>\$(1,408,477)</u> |

## 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, Thomas T. Farrelly, CFE, Mark A. Giffin, CFE, and Michael P. Phillips, CFE, CPA, AES, insurance examiners, and Ralph Kopp, FSA, MAAA, Life and Health Actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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D. Patrick Huth, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON)

County of Marion                    ) ss  
  )

D. Patrick Huth, CFE, being duly sworn, deposes and says that the preceding report of financial examination as of December 31, 1998, of Regence Health Maintenance of Oregon, Inc., Portland, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

\_\_\_\_\_  
D. Patrick Huth, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2000.

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