



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**HEALTH NET HEALTH PLAN OF OREGON, INC.
TIGARD, OREGON**

NAIC COMPANY CODE 95800

AS OF

December 31, 2009

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SALUTATION

August 3, 2010

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

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 guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**HEALTH NET HEALTH PLAN OF OREGON, INC.
13221 SW 68th Parkway
Tigard, Oregon 97223**

NAIC Company Code 95800

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

SCOPE OF EXAMINATION

Our financial examination of the Company as of December 31, 2009, covers the four year period then ended. The last examination was completed as of December 31, 2005. This examination covers the period of January 1, 2006 through December 31, 2009. Material transactions or events occurring subsequent to the examination cut-off date were reviewed and noted during the examination.

We considered the provisions of ORS 731.300 and the NAIC procedures and guidelines during our examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions. Corrective actions taken by the Company in response to comments and recommendations in the December 31, 2005, report of examination were reviewed.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

Scott L. Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, evaluated losses, loss adjustment expenses and health policy reserves for this report. His conclusions are included in the notes to the financial statements section of this report.

COMPANY HISTORY

The Company was incorporated as a nonprofit corporation on June 1, 1989, by Foundation Health Corporation. On June 22, 1989, the Company acquired all of the rights Foundation Health Corporation held with respect to Foundation Health Plan, Inc. This acquisition resulted in the legal dissolution of Foundation Health Plan, Inc., and the formation of QualMed Oregon Health Plan, Inc., as a for profit stock corporation. The original Certificate of Authority was issued by the Oregon State Insurance Director of the Department of Insurance and Finance on June 23, 1989, and authorized the Plan to transact the business as a health care service contractor under ORS 750.055 and 731.354. On April 3, 1991, the Company became a federally qualified health maintenance organization.

On April 9, 1997, PACC Health Plans and PACC HMO (collectively "PACC"), Oregon based healthcare service contractors, entered into an Agreement and Plan of Reorganization for the merger of PACC into the Company and assignment of PACC's Washington business to other subsidiaries of Foundation Health System, Inc. (FHS), the ultimate parent of the Company. As a consequence of the merger, the Company was the surviving entity and PACC no longer existed. Pursuant to the Articles of Merger, the effective date of the merger was October 22, 1997.

During 2000, FHS changed its name to Health Net, Inc. At the same time QualMed Oregon Health Plan, Inc., changed its name to Health Net Health Plan of Oregon, Inc.

MANAGEMENT AND CONTROL

Company Bylaws vest management and control in a Board of Directors consisting of not less than one (1) nor more than ten (10) members. The exact number of directors may be fixed or changed periodically, within the minimum and maximum, by the shareholders or the Board of Directors. The Board of Directors meets the requirements of ORS 750.015. Directors serving at December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>	<u>Director Since</u>
Christian D. Ellertson Tigard, OR 97223	President Health Net Health Plan of Oregon Inc.	March 2002
Kenneth L. Leander Tigard, OR 97223	Director Retired - Senior Vice President Washington Mutual	July 2002
John P. Sivori Rancho Cordova, CA 95670	Chairman & Director Health Net Health Plan of Oregon Inc. President Regional Health Plans Health Net Inc. President Health Net Pharmaceutical Services	November 2008

Officers

Principal officers elected and serving the Company at December 31, 2009, were as follows:

<u>Name</u>	<u>Office</u>
Christian D. Ellertson	President
Marie Montgomery	Chief Financial Officer & Treasurer
Steven D. Sickle	Secretary
Bret A. Morris	Vice President
Angelee F. Bouchard	Assistant Secretary

Parent, Subsidiary and Affiliated Companies

The Company is a member of an insurance company holding system which includes 43 affiliated entities, twelve of which are insurance companies. The following is a list of those entities holding direct or indirect ownership of the Company or with agreements in place with the Company during the period under review:

Health Net, Inc. (HNI) is an integrated managed care organization that delivers managed health care services through health plans and government-sponsored managed care plans. HNI operates and conducts its businesses through its subsidiaries (including the Company). Its health plans and government contract subsidiaries provide health benefits through its health maintenance organizations (HMOs), insured preferred provider organizations (PPOs), point-of-service (POS) and indemnity plans to approximately 6.1 million individuals across the country through group, individual, Medicare, (including the Medicare prescription drug benefit commonly referred to as Part D),

Medicaid, TRICARE and Veterans Affairs programs. HNI operates within two segments: West Operations and Government Contracts. It recently sold its Northeast Operations to United Health. Its behavioral health services subsidiary, Managed Health Network, provides behavioral health, substance abuse, and employee assistance programs.

QualMed, Inc. (QMI) is domiciled in Delaware and is a wholly owned subsidiary of HNI. QMI is the Company's immediate parent.

Health Net Pharmaceutical Services (HNPS) is domiciled in California and is another wholly owned subsidiary of HNI. HNPS manages pharmacy outpatient prescription benefits for HNI affiliated companies.

Health Net of California, Inc. (HNCa), is a California domiciled corporation licensed as a health care plan by the Department of Managed Health Care of the State of California under the Knox-Keene Health Care Service Plan Act of 1975. It is a wholly owned subsidiary of HNI.

Health Net Life Insurance Company (HNL) is a California domiciled life and health insurer (NAIC #66141) and a wholly owned subsidiary of Health Net of California, Inc.

MHN Services (MHN) is a California domiciled corporation that arranges for a provider network to provide mental health and substance abuse services and provides a utilization management program, including claims services related to such services. It is a wholly owned subsidiary of Managed Health Network, Inc., which in turn is a wholly owned subsidiary of HNI.

INTERCOMPANY AGREEMENTS

Much of the Company's operations is performed by HNI (its ultimate parent) and affiliated companies described above. The following is a description of the agreements under which the Company operated as of December 31, 2009:

Administrative Services Agreements

The Company received administrative, financial, information systems, marketing and operations services from its affiliates.

Effective January 1, 2007, the Company signed an administrative agreement with HNCa to provide management support for underwriting and actuarial services, broker services, operation services for claims, customer services, enrollment & billing, and fee negotiation. Monthly HNCa charges the Company for salaries, employee benefits and employment taxes for employees working on the Company's behalf, multiplied by the Company's allocation. Time spent on Company tasks divided by the total monthly employee expenses derives the allocation.

Effective January 1, 2004, the Company entered into an agreement with HNI, whereby HNI agrees to provide the following functions: corporate planning, operations, communications, payroll, financial, organizational effectiveness (human resources), product development, medical management, business consolidation, Medicare compliance, facility distribution service, facilities, corporate Medicare, and IT administration.

Both of the above agreements calls for the Company to reimburse the entities for actual expenses incurred based on a corporate-wide allocation of fixed and variable expenses.

Pursuant to an administrative agreement with MHN Services, Inc (MHN), the Company purchases mental behavioral health and substance abuse services from its affiliate. A per-member/per-month charge is paid monthly for the administrative services provided by MHN for these benefits for members with mental health coverage. The Company reimburses MHN for all claims paid on its behalf within 30 days.

Pursuant to an affiliate agreement with Health Net Pharmaceutical Services, Inc. (HNPS), the Company receives drug claims administration, formulary management and pharmaceutical rebate processing services in exchange for an administrative fee. The administrative fee is settled within 30 days in the normal course of business. Prior to the issuance of checks for pharmaceutical claim

payments, the Company remits cash to HNPS to fund the claim payments. Pharmaceutical rebates are remitted by HNPS to the Company as they are collected from the drug manufacturers.

Tax Allocation and Indemnification Agreement

The Company files a consolidated federal income tax return with its parent and other affiliates under an agreement dated January 1, 2007, and approved by the Board of Directors. Allocation is based on a separate return calculation with a current credit for net losses. Intercompany tax balances are settled monthly.

CONFLICT OF INTEREST

The Company's conflict of interest policy requires officers and directors to report conflicts of interest. A review of the signed conflict of interest statements did not reveal any conflicts.

CORPORATE RECORDS

Corporate records, including the Articles of Incorporation, Bylaws and Board of Directors' meeting minutes were reviewed for the period under examination.

Articles of Incorporation

The Articles of Incorporation conformed to Oregon statutes. No changes were made to the Company's Articles during the period under review.

Bylaws

The Bylaws conformed to Oregon statutes. No changes were made to the Company's Bylaws during the period under review.

Board of Director Minutes

A review of the Board of Director minutes indicated the Board performed its designated duties in managing the affairs of the Company as specified in the Bylaws. The review of the Board minutes during the period under examination indicated that the Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. In addition, the minutes showed the Board approved officer salaries in accordance with the provisions of ORS 732.320(3). A quorum met at all

meetings held during the period under examination. The minutes supported the transactions of the Company and described the actions taken by its officers and directors in sufficient detail.

FIDELITY BONDS AND OTHER INSURANCE

Fidelity insurance purchased from National Union Fire Insurance Company of Pittsburgh, PA covered HNI and its subsidiaries for losses up to \$5,000,000 per occurrence, net of \$100,000 retention, from acts of dishonesty and fraud by its employees. This fidelity bond coverage was found to meet the minimum coverage recommended by the NAIC. In addition, HNI and its subsidiaries are insured for executive liability for losses up to \$15,000,000 per claim and in the aggregate, after a \$5,000,000 deductible for securities and employment claims. For all other claims the retention drops to \$2,500,000 per claim.

An examination of insurance coverages protecting the Company at December 31, 2009, involved a review of the adequacy of policy limits and retentions, as well as the solvency of the insurers. Other insurance coverages in force were found to be adequate, and are as follows:

Business auto	Professional liability errors & omissions
Directors & officers	Employment practices liability
Fiduciary liability	General liability/Medical malpractice
Property insurance	Workers' compensation

All policies described above were issued in the name of Health Net, Inc., and included a statement that the term "insured" means the policyholder and any subsidiary, which would include the Company.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

As of December 31 2009, the Plan had the following pension plans in effect:

Deferred Compensation Plans

HNI and its affiliates adopted a deferred compensation plan, which employees holding positions of director level or above and earning over \$100,000 yearly are eligible to defer between 5% and 90% of their regular compensation and between 5% and 100% of their bonuses. The compensation deferred

under this plan is credited with earnings or losses measured by the mirrored rate of return on investments elected by plan participants. Each plan participant is fully vested in all deferred compensation and earnings credited to his or her account.

Prior to May 1997, certain members of management, highly compensated employees and non-employee Board members were permitted to defer payment of up to 90% of their compensation under a prior deferred compensation plan (the "Prior Plan"). The prior plan was frozen in May 1997 at which time each participant's account was credited with three times the 1996 Plan match (or a lesser amount for certain participants) and each participant became 100% vested in all such contributions. The current provisions with respect to the form and timing of payments under the prior plan remain unchanged. In 2004 the plan was revised to bar non-employees from participating.

Defined Contribution Retirement Plans

The Company sponsors, through HNI, defined contribution retirement plans intended to qualify under Sections 401 (a) and 401 (k) of the Internal Revenue Code (the "Code") of 1986, as amended. Participation in the plans is available to substantially all employees who meet certain eligibility requirements and elect to participate. Employees may contribute up to the maximum limits allowed by Section 401(k) of the Code, with the Company's contributions based on matching or other formulas.

Postretirement Health Plan

The Company sponsors a postretirement defined benefit plan (the Plan) that provides postretirement medical benefits to key executives, employees, and dependents who meet certain eligibility requirements. The Plan is noncontributory for employees retired prior to December 1, 1995, who had attained age 62. Employees retiring after December 1, 1995, who had attained age 62, contribute from 25% to 100% of the cost of coverage, depending on years of service, for medical, dental, and prescription drug coverage. Under the Plan, the Company pays a percentage of the costs of medical, dental and vision benefits during retirement. The Plan includes certain cost sharing features such as

deductibles, co-insurance and maximum annual benefit amounts that vary based principally on years of credited service.

TERRITORY AND PLAN OF OPERATION

The Company offers health insurance in Oregon and Washington. Health care services covered include physician, hospital inpatient, emergency room, outpatient, maternity, and other services such as organ transplants, skilled nursing care and home health care. Services are delivered to its members through contracts with hospitals and Independent Physician Associations (IPAs). These IPAs are compensated by the Company through fee-for-service agreements. Contracted hospitals provide inpatient services for a negotiated per diem fee, global case rate or discounted charges. Benefit plans are marketed through independent agents under the direction of the Company's sales staff.

During the period under examination, the Company reported total enrolled members. The amounts were compiled from the Company's filed annual statements, except in those years where the Oregon Insurance Division prepared an examination report.

<u>Line of Business</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005*</u>
Health maintenance organizations	6,015	8,705	11,254	11,556	15,486
Preferred provider organizations	100,812	108,945	101,815	98,233	96,179
Point of service	4,033	5,620	11,557	13,452	16,859
Indemnity only	<u>27</u>	<u>224</u>	<u>180</u>	<u>138</u>	<u>765</u>
Total enrollment	<u>110,887</u>	<u>123,494</u>	<u>124,806</u>	<u>123,379</u>	<u>129,289</u>

*Per examination

GROWTH OF THE COMPANY

Company growth since the last financial examination is shown in the following schedule. The amounts were compiled from the Company's filed annual statements, except in those years where the Oregon Insurance Division prepared an examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income</u>
2005*	\$ 91,367,383	\$42,682,979	\$48,684,404	\$10,707,851
2006	105,545,720	45,742,880	59,802,840	11,756,081
2007	113,672,897	46,237,388	67,435,509	12,097,948
2008	105,400,166	47,976,921	57,423,245	3,838,442
2009*	120,647,157	46,969,871	73,677,286	(3,231,055)

*Per examination

LOSS EXPERIENCE

The following exhibit presents the Company's annual underwriting results since the last examination. Amounts were compiled from the Company's filed annual statements, except for those years when the Oregon Insurance Division prepared an examination report.

Income Statement – Medical Loss Ratios on a Calendar Year Basis

<u>Year</u>	(1) <u>Net Premium Income</u>	(2) <u>Loss and Loss Adjustment Expenses (LAE) Incurred</u>	(2/1) <u>Ratio</u>
2005*	\$358,784,407	\$300,648,118	83.80%
2006	368,726,847	310,337,107	84.16%
2007	386,789,636	326,185,391	84.33%
2008	421,104,773	376,583,568	89.43%
2009*	434,362,201	401,796,476	92.50%

*Per examination

HOLDING COMPANY REGISTRATION

Timely and complete holding company registration statements were filed by the Plan in accordance with the provisions of ORS 732.552, ORS 732.554, ORS 732.564 and Oregon Administrative Rule (OAR) 836-027-0020(1).

During the examination period the Company paid ordinary cash dividends to its parent of \$2,000,000 in 2006, \$5,000,000 in 2007 and \$15,000,000 in 2008 and made the proper disclosure of these dividends to the director of the Oregon Department of Consumer and Business Services in accordance with the reporting requirements established by ORS 732.554. The Company paid no dividends in 2009. In 2009 the Company received cash totaling \$19,200,000 in exchange for issuing a surplus note payable to HNI for \$19,200,000 with a 4% annual interest rate. Repayment of the surplus note and payment of interest requires approval by the Oregon Insurance Division.

REINSURANCE

The Company has no reinsurance. Its former reinsurance treaty with affiliate, Health Net Life, expired December 31, 2008. The Company did not have any reinsurance during 2009.

Risk Retention

The provisions of ORS 731.504(1) state that no insurer shall retain any risk on any one subject of insurance in an amount exceeding 10 percent of its surplus to policyholders.

The Company's surplus to policyholders as of December 31, 2009, totals \$73,677,286. In accordance with the above statute, the Company could retain risk on any one subject of insurance totaling \$7,367,729. Company management determined that the likelihood of a loss on any one subject of insurance exceeding this amount was highly unlikely and determined the Company did not need reinsurance. Given the Company's level of surplus to policyholders, the examiners agreed with this determination and concluded the Company was in compliance with ORS 731.504(1).

ACCOUNTS AND RECORDS

In general, the Company's accounting and corporate records were maintained in manner in which the financial condition was verifiable as required by the provisions of ORS 733.170. However, the following matters were noted during the examination:

Home Office Records

The provisions of ORS 732.245 require a domestic insurer to keep complete accounts and records at its home office within the State of Oregon. The division understands there are instances where an Oregon domestic insurer elects to prepare and maintain records at an office located in another state, often at the parent company's home office. The director will determine whether the Oregon domestic insurer has complied with the above statute when records are maintained out of state, if the insurer does the following:

1. Readily provide examiner(s) conducting the examination either electronic access to all records or hard copies of all records that the examiner(s) determines are necessary to conduct the examination. Such access or records must be provided at the Oregon domestic insurance company's statutory home office; and

2. Make the person or persons who prepared the records readily available at the Oregon domestic insurance company's statutory home office to provide assistance to examiners during the examination at the examiner's request.

or

1. Make records and assets readily available at an office located in another state for examination by the director; and

2. Pay the transportation and travel expenses necessary for the examiner(s) to conduct the examination as provided in ORS 731.316.

The Company maintains most of its records and performs most of its accounting functions at HNI's home office in Woodland Hills, California. Requests for information were relayed to HNI, which sent the information from its offices in Woodland Hills or Rancho Cordova up to the Company's offices in Tigard, Oregon. The examiners noted that the following records were not maintained at the Company's home office:

- Bank statements for all accounts, including cancelled checks and check registers
- Investment portfolio statements and supporting details
- Income tax returns, both federal and State of Oregon
- Adjusting journal entries that reconcile the general ledger to the annual statement
- Actuarial records for reserves
- Detailed records of intercompany accounts

All of the above records were timely received during the course of this examination.

US Bank Custodial Agreement

Certain of the safeguards required by OAR 836-027-0200 were not included in the US Bank custodial agreement. These safeguards include the following:

- In the event that the custodian gains entry in a clearing corporation through an agent, there shall be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian.
- The custodian must agree to provide written notification to the Director, within three business days of receipt by the custodian of the insurer's written notice of termination or withdrawal.
- The custodian and its agents, upon reasonable request, must agree to send all reports that they receive from a clearing corporation or the Federal Reserve book-entry system that the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurer on the custodian's or agent's respective systems of internal control.
- The custodian must agree to secure and maintain insurance protection in an adequate amount.

I recommend the custodial agreement with US Bank be amended to include the required sections to comply with OAR 836-027-0200.

Consolidated Federal Income Tax Return

Note 9.F. (1) in Notes to Financial Statement lists the entities with which the Company's Federal Income Tax return is consolidated. The list includes some entities that should not be in the list, including entities that were previously dissolved. The schedule of entities filing in the consolidated group was not updated in the 2009 year end statutory filing. Memorial Hospital of Gardena, Inc., and HSI Eastern Holdings, Inc., were dissolved or sold in 2007 and should be removed from Note 9.F.(1).

The Company did not have appropriate controls on its process to accumulate and disclose entities with which a consolidated tax return is filed.

I recommend the Company correctly report the entities shown on its consolidated tax return as filed and ensure Note 9 of the Notes to Financial Statements is updated. A correct listing would comply with the 2009 NAIC Health Annual Statement Instructions pursuant to ORS 733.210.

Expense Allocation Worksheets

After reviewing the Cost Center Allocation and the Administrative Services Agreement with the respective amendments, it was determined that the Cost Center Allocation did not follow the method of allocation stated in the Agreement/Amendments.

I recommend the Company update its Administrative Services Agreements to accurately reflect its current cost center allocation methods. This recommendation is made pursuant to NAIC Financial Condition Examiners Handbook and ORS 731.302.

Investment Limitation

The provisions of ORS 733.770 prohibit an insurer from having any combination of investments in or secured by the stocks, obligations, and property of one person, corporation or political subdivision in excess of 10% of its assets.

As of September 30, 2008, the Company had \$73 million, or 71% of its assets, invested in the Reserve Primary Money Market Fund (Reserve Primary Fund). Approximately 1.3% of the \$62.5 billion fund was invested in Lehman Brothers Holdings, Inc. Lehman filed for bankruptcy protection on September 15, 2008. On September 19, 2008, the Reserve Primary Fund filed with the SEC an Application for an Order to suspend all rights of redemption and to postpone the date of payment of redemption of proceeds. The Company was, therefore, unable to redeem its investment in the Reserve Primary Fund. Because the funds invested in Reserve Primary Fund were unable to be used by the Company to pay claims, the investment was not an allowed asset as identified by ORS 733.010(7).

In order to allow the Company to report surplus above the minimum required capital and surplus level of ORS 731.554, bring the Company into compliance with ORS 733.770, and allow assets equal to the amount invested in the Reserve Primary Fund be reflected as an admitted asset as of September 30, 2009, the Company's parent purchased from the Company its investment in the Reserve Primary for \$73 million. The Company subsequently invested the proceeds it received in compliance with the provisions of ORS 733.770.

In June 2009 the director assessed the Company a civil penalty of \$10,000 for its violation of ORS 733.770.

I recommend the Company comply at all times with the provisions of ORS 733.770.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with the recommendations in the report of financial examination made as of December 31, 2005. The following three recommendations were included in the prior report:

1. I recommend the Company consistently comply with the procedure outlined in this report regarding home office records.
2. I strongly recommend the Plan respond to all inquiries in a timely manner as prescribed by ORS 731.296 and ORS 731.308(2).
3. I recommend the Plan honor the terms of the agreement in place with HNPS regarding pharmaceutical rebates. In the event a new agreement is made clarifying the ownership of the receivables, it shall be presented in a Form D filing with the Oregon Insurance Division for approval pursuant to ORS 732.574 and OAR 836-027-0160.

HEALTH NET HEALTH PLAN OF OREGON, INC.
BALANCE SHEET
As of December 31, 2009

<u>ASSETS</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$ 61,037,160	\$0	\$ 61,037,160
Cash & short term investments	52,663,576		52,663,576
Investment income due and accrued	480,345		480,345
Uncollected premiums	2,712,589		2,712,589
Net deferred tax asset	610,017		610,017
EDP equipment and software	6,655		6,655
Receivables from parent, subsidiaries and affiliates	954,121		954,121
Health care and other amounts receivable	<u>2,182,694</u>		<u>2,182,694</u>
Total Assets	<u>\$120,647,157</u>	<u>\$0</u>	<u>\$120,647,157</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	\$ 30,916,113	\$0	\$ 30,916,113
Unpaid claims adjustment expense (Note 2)	1,128,581		1,128,581
Aggregate policy reserves (Note 2)	2,886,812		2,886,812
Premiums received in advance	3,051,772		3,051,772
General expenses due or accrued	4,807,510		4,807,510
Current FIT payable	24,410		24,410
Remittances and items not allocated	2,052,943		2,052,943
Amounts payable to parent, subsidiaries and affiliates	264,940		264,940
Aggregate write-ins for other liabilities	<u>1,836,790</u>	<u>0</u>	<u>1,836,790</u>
Total Liabilities	<u>46,969,871</u>	<u>0</u>	<u>46,969,871</u>
 <u>SURPLUS</u>			
Common capital stock	10	0	10
Gross paid in and contributed surplus	16,784,128		16,784,128
Surplus notes	19,200,000		19,200,000
Unassigned funds	<u>37,693,148</u>	<u>0</u>	<u>37,693,148</u>
Total Capital and surplus	<u>73,677,286</u>	<u>0</u>	<u>73,677,286</u>
Total Liabilities and Surplus	<u>\$120,647,157</u>	<u>\$0</u>	<u>\$120,647,157</u>

HEALTH NET HEALTH PLAN OF OREGON, INC.
INCOME STATEMENT
For the Year Ended December 31, 2009

Net premium income	\$ 434,362,201
Change in unearned premium reserves and reserve for rate credits	<u>(161,936)</u>
Total revenues	<u>434,200,265</u>
Hospital and Medical:	
Hospital/medical benefits	274,051,769
Other professional services	43,224,454
Outside referrals	9,538,896
Emergency room and out-of area	18,618,559
Prescription drugs	<u>42,722,236</u>
Subtotal	388,155,914
Less:	
Net reinsurance recoveries	<u>(154,411)</u>
Total Medical and Hospital	388,310,325
Claims adjustment expenses	13,486,151
General administrative expenses	38,411,992
Increase in reserves for accident and health contracts	<u>528,330</u>
Total underwriting deductions	<u>440,736,798</u>
Net underwriting gain or (loss)	<u>(6,536,533)</u>
Net investment income earned	1,435,014
Net realized capital gains or (losses)	<u>61,947</u>
Net investment gains	<u>1,496,961</u>
Aggregate write-ins for other income or expenses	<u>(5,123)</u>
Net income before federal income taxes	(5,044,695)
Federal and foreign income taxes incurred	<u>(1,813,640)</u>
Net income (loss)	<u><u>\$ (3,231,055)</u></u>
 <u>CAPITAL AND SURPLUS</u>	
Capital and surplus prior reporting year	<u>\$57,423,245</u>
Gains and Losses to Capital & Surplus:	
Net income or (loss)	(3,231,055)
Change in net deferred income tax	12,052
Change in nonadmitted assets	400,692
Change in surplus notes	19,200,000
Surplus adjustments	
Paid in	(78,965)
Aggregate write-ins for gains or (losses) in surplus	<u>(48,683)</u>
Net change in capital and surplus	<u>16,254,041</u>
Capital and surplus end of reporting year	<u><u>\$73,677,286</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

Most of the Company's bond investments were in high quality US Treasury obligations, special revenue and industrial and miscellaneous bonds. A comparison of the invested assets over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2005	\$49,161,222	\$36,765,068	53%	40%
2006	46,547,138	49,397,255	44%	47%
2007	43,016,487	61,950,379	38%	54%
2008	23,032,454	71,228,988	22%	68%
2009	61,037,160	52,663,576	51%	44%

As of December 31, 2009, the Company had invested assets with a book value in excess of \$75,000,000, representing 66% of total invested assets, invested in amply secured obligations of the United States, obligations of the State of Oregon, or in FDIC insured cash deposits in accordance with ORS 733.580. The Company was, therefore, in compliance with the requirements of ORS 733.580.

The Company did not report any bonds rated below investment grade as of December 31, 2009.

Note 2— Analysis of Claim Liability

Scott Fitzpatrick, FSA, MAAA, actuary for the Oregon Insurance Division, reviewed the Company's actuarial opinion and performed independent calculations for the claims liabilities as of December 31, 2009. From his analysis he concluded there was no material difference between the Company's reserves and his own estimates of reserves at December 31, 2009.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Following is a summary of the comments and recommendations made as a result of this examination.

Page

- 16 I recommend the custodial agreement with US Bank be amended to include the required sections to comply with OAR 836-027-0200.
- 16 I recommend the Company correctly report the entities shown on its consolidated tax return as filed and ensure Note 9 of the Notes to Financial Statements is updated. A correct listing would comply with the 2009 NAIC Health Annual Statement Instructions pursuant to ORS 733.210.
- 17 I recommend the Company update its Administrative Services Agreements to accurately reflect its current cost center allocation methods. This recommendation is made pursuant to NAIC Financial Condition Examiners Handbook and ORS 731.302.
- 18 I recommend the Company comply at all times with the provisions of ORS 733.770.

CONCLUSION

During the four-year period covered by this examination, the Company's surplus has increased from \$48,684,404, as presented in the December 31, 2005, report of examination, to \$73,677,286, as shown in this report of examination. Comparative assets and liabilities are shown below:

	<u>2009</u>	December 31,	<u>2005</u>	<u>Change</u>
Assets	\$120,647,157		\$91,367,383	\$29,279,774
Liabilities	<u>46,969,871</u>		<u>42,682,979</u>	<u>4,286,892</u>
Surplus	<u>\$ 73,677,286</u>		<u>\$48,684,404</u>	<u>\$24,992,882</u>

SUBSEQUENT EVENTS

There were no events subsequent to the completion of fieldwork that would require any changes to this report.

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, Ellen F. Quale, CPA, AFE insurance examiner, and Scott L. Fitzpatrick, FCAS, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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

AFFIDAVIT

State of Oregon)
) ss
Marion County)

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I am authorized to represent the state of Oregon in the examination of Health Net Health Plan of Oregon, Inc.

2. The Insurance Division 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, and the examination of Health Net Health Plan of Oregon Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

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 _____, 2010.

Notary Public in and for the State of Oregon

My Commission Expires: _____