



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**HEALTH PLAN OF CAREOREGON, INC.
PORTLAND, OREGON**

NAIC COMPANY CODE 12277

AS OF

DECEMBER 31, 2009

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SALUTATION

October 29, 2010

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
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

**HEALTH PLAN OF CAREOREGON, INC.
315 SW Fifth Avenue, Suite 900
Portland, Oregon 97204**

NAIC Company Code 12277

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

SCOPE OF EXAMINATION

Our financial examination of the Company as of December 31, 2009, covers the three year period then ended. The last examination was completed as of December 31, 2006. This examination covers the period of January 1, 2007, 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. The 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, 2006, report of examination were reviewed.

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

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

COMPANY HISTORY

The Plan was incorporated in Oregon on January 12, 2005, as a for-profit health corporation to offer Medicare Advantage plan medical and drug coverage to enrollees who are dual eligible under both Medicare and Medicaid. Effective January 1, 2009, the Plan also began providing a commercial Medicare Advantage Part D plan for members who are not dually eligible, as the CareOregon Advantage STAR program. The federal government requires that Medicare contractors hold a license as an insurer at the state level.

CareOregon, Inc., the parent company, is a charitable non-profit organization that meets the requirements of Internal Revenue Code 501(c)(3). It is a fully capitated health plan writing business through the Oregon Health Plan, which is administered by the Division of Medical Assistance Program (DMAP) of the Oregon Department of Human Services.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws specify that all corporate powers shall be exercised by, or under the authority of, the Board of Directors and the business and affairs of the corporation shall be managed by, or under the direction of, the Board of Directors. The Bylaws, in Article 3.2, further state that the number of directors of the corporation shall be a minimum of five and a maximum of fifteen. At December 31, 2009, the Board was comprised of the following nine individuals:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Colleen A. Cain Portland, OR 97204	Consultant	June 2006
Susan M. Clack, MD Tigard, OR 97223	Physician/Chairperson Pacific Medical Group	June 2006
Beth deHamel Portland, OR 97202	Chief Financial Officer TriMet	January 2009

<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
David E. Ford Portland, OR 97204	President and CEO CareOregon, Inc.	January 2005
Vickie S. Gates Portland, OR 97204	Consultant	October 2008
Christopher J. Krenk* Portland, OR 97232	President and CEO Albertina Kerr Centers	June 2006
Lynwood R. Lundquist Prineville, OR 97754	County Commissioner Crook County	June 2006
J. Bart McMullan, Jr., MD Portland, OR 97204	Retired – President Regence BCBS of Oregon	January 2005
Gilles M. Muñoz Hillsboro, OR 97113	Executive Director Virginia Garcia Memorial Health Center	June 2006

*Chairman

Although Dr. McMullan retains his MD designation, he is not currently a practicing physician. The Board of Directors met the requirements of ORS 750.015, as five of the nine directors were public representatives.

Officers

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

<u>Name</u>	<u>Office</u>
David E. Ford	President and CEO
Carolyn “Fritz” J. Rankin	Secretary, COO and CFO
Margaret S. Rowland	Chief Medical Officer

Parent, Subsidiary and Affiliated Companies

The Plan is a member of an insurance company holding system. CareOregon, Inc., the ultimate parent, is an Oregon non-profit public benefit corporation registered with the IRS as an Internal Revenue Code 501(c)(3) corporation. CareOregon, Inc., was formed in 1993 through a partnership between the Multnomah County Health Department, Oregon Primary

Care Association and Oregon Health Sciences University. During 2010 CareOregon opened clinics in the Rockwood neighborhood (Portland), Gladstone and Milwaukie to serve its members. As of December 31, 2009, CareOregon, Inc. owned all 10,000 authorized shares of the Plan's \$0.001 par common stock, representing 100% of the Plan's issued and outstanding shares of common stock.

INTERCOMPANY AGREEMENTS

CareOregon Inc., performs most of the of the Plan's operations. Agreements under which the Plan operated as of December 31, 2009, are as follows:

Management Agreement

The Plan entered into an agreement with CareOregon, Inc., on January 14, 2005 (amended May 31, 2005) whereby CareOregon, Inc., will provide all marketing, claims, reinsurance, investments, financial and accounting systems (including financial reporting), information system and data processing, medical management, enrollment and member services, and other compliance and administrative functions to the Plan. In exchange, the Plan agrees to pay all direct expenses and all reasonable expenses for office space and equipment, including compensation, benefits, and payroll taxes paid for employees of CareOregon, Inc., expensed on behalf of the Plan. Expense invoices are prepared monthly and due within 15 business days.

CONFLICT OF INTEREST

The Plan has a conflict of interest policy that requires officers, directors, and controller to report conflicts of interest. A completed conflict of interest statement was available for all officers and directors with the exception of the controller. This finding was cured prior to the completion of fieldwork when the controller completed a conflict of interest statement.

Though Article VI of the Conflicts of Interest Policy specifies that the "Controller shall annually sign a statement," the examiner did not see such a statement signed by the Plan's controller.

I recommend each officer, director, and the controller sign the conflict of interest statement as required by Article VI of the Conflicts of Interest Policy to comply with the NAIC Financial Examiners Handbook and ORS 733.210.

CORPORATE RECORDS

The corporate records, including the Articles of Incorporation, Bylaws and minutes of the Board of Directors meetings were reviewed for the period under examination.

Articles of Incorporation

The Articles of Incorporation conformed to Oregon statutes. No amendments were made to the Articles of Incorporation during the period under review.

Bylaws

The Bylaws conformed to Oregon statutes. No amendments were made to the corporate 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 Plan as specified in the Bylaws. Actions of the Board were supported by a quorum for those meetings. The Board approved investments in accordance with the provisions of ORS 733.730 and ORS 733.740. Minutes supported the transactions of the Plan and actions taken by its officers.

FIDELITY BONDS AND OTHER INSURANCE

Insurance coverages were reviewed for adequacy of limits and retention. The solvency of the insurers providing the coverages was also reviewed. Fidelity coverage insures against employee dishonesty, counterfeiting, forgery or computer crimes committed by an employee. Losses up to \$1,000,000 are covered after \$25,000 retention. Fidelity bond coverage exceeded the NAIC's recommended minimum coverage. As of December 31, 2009, CareOregon Inc., carried the following coverages for itself and its subsidiaries:

Commercial liability	Commercial inland marine
Commercial property	Commercial auto
Workers' compensation	Directors & officers
Errors & omissions	Excess general liability
Flood	Employee benefits errors & omissions

These coverages were adequate as of December 31, 2009.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Plan has no employees and therefore, no direct liability for employee benefits.

TERRITORY AND PLAN OF OPERATION

After the issuance of its Certificate of Authority in Oregon, the Plan completed its application to the Center for Medicaid and Medicare Services (CMS) to write Medicare Advantage business in the Clackamas, Clatsop, Columbia, Marion, Multnomah, Polk and Washington counties of Oregon. The Plan began writing business in January 2006 under the name "CareOregon Advantage." In 2007, the Plan applied and was subsequently approved to write Medicare Advantage business in Jackson and Josephine counties in Oregon effective January 1, 2008. Effective January 1, 2009, the Plan also began providing a commercial Medicare Advantage Part D plan for members who are not dually eligible, as the CareOregon Advantage STAR program.

GROWTH OF THE COMPANY

The growth of the Plan since the last financial examination is reflected in the following schedule. The stated amounts were derived from the Plan's filed annual statements, except for those years in which an examination was conducted by the Insurance Division of the Department of Consumer and Business Services.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income</u>
2006*	\$32,922,438	\$24,050,034	\$ 8,872,404	\$ 1,678,246
2007	37,018,616	16,670,989	20,347,627	1,505,054
2008	41,581,760	12,476,411	29,105,348	10,249,586
2009*	40,664,938	13,645,555	27,019,383	3,739,337

*Per examination

LOSS EXPERIENCE

The annual underwriting results of the Plan since the last examination are reflected in the following schedule. The amounts were compiled from copies of the Plan's filed annual statements, except for those years in which an examination was conducted by the Insurance Division of the Department of Consumer and Business Services.

<u>Year</u>	(1) <u>Net Premium Income</u>	(2) <u>Total Hospital and Medical Expenses Incurred</u>	(2/1) <u>Ratio</u>
2006*	\$67,124,329	\$56,690,383	84.50%
2007	65,677,831	48,851,890	74.38%
2008	67,729,585	46,928,564	69.29%
2009*	71,021,363	54,312,149	76.47%

*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) 836-27-020(1).

During the period examined, the Plan paid no dividends nor made any distributions.

REINSURANCE

Stop-Loss Agreement

For 2009 the Plan ceded reinsurance through a stop loss agreement with HCC Life Insurance Company of Kennesaw, GA (HCC Life). Under terms of the agreement, HCC Life reimburses the Plan for per member losses up to \$2,000,000, after \$200,000 retention. Lifetime benefit per member is \$2,000,000. It was determined the Plan's reinsurance agreement clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

Insolvency Clause

Reinsurance payments will be made without diminution to the Plan (ceding insurer) or its statutory successor should the Plan become insolvent. This clause complies with ORS 731.508.

Risk Retention

The reinsurance agreement requires the Plan retain losses up to \$200,000 per person. Surplus was \$27,019,383 as of December 31, 2009; therefore, the Plan does not retain risk on any one subject of insurance in excess of ten percent of its surplus to policyholders pursuant to the maximum risk retention set by ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's accounting and corporate records were maintained in manner in which the financial condition was readily verifiable as required by the provisions of ORS 733.170.

The Company maintains its accounting records on a modified Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory

Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Moss Adams, LLP. The Company received unqualified opinions for the three years under review.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following recommendation was made in the 2006 examination.

I recommend the Plan record changes in deferred tax assets and deferred tax liabilities consistent with the requirements of SSAP 10.

The Plan corrected its reporting of deferred tax assets and liabilities in subsequent quarterly or annual statement filings.

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

	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$30,979,594	\$0	\$30,979,594
Cash & short term investments	6,542,037		6,542,037
Investment income due and accrued	343,802		343,802
Uncollected premiums	1,361,166		1,361,166
Amounts recoverable from reinsurers	300,000		300,000
Net deferred tax asset	701,586		701,586
Receivables from parent, subsidiaries and affiliates	22,482		22,482
Health care and other amounts receivable	<u>414,271</u>	<u>0</u>	<u>414,271</u>
Total Assets	<u>\$40,664,938</u>	<u>\$0</u>	<u>\$40,664,938</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	\$ 8,134,085	\$0	\$ 8,134,085
Accrued medical incentive pool (Note 2)	5,200		5,200
Unpaid claims adjustment expense (Note 2)	444,000		444,000
Aggregate health policy reserves	1,596,655		1,596,655
General expenses due or accrued	344,074		344,074
Current FIT payable	1,083		1,083
Amounts due to parent, subsidiaries and affiliates	938,294		938,294
Liability for amounts held under uninsured plans	<u>2,182,164</u>		<u>2,182,164</u>
Total Liabilities	<u>13,645,555</u>	<u>0</u>	<u>13,645,555</u>
Common capital stock	10	0	10
Gross paid in and contributed surplus	11,399,990		11,399,990
Surplus notes	0		0
Unassigned funds	<u>15,619,383</u>	<u>0</u>	<u>15,619,383</u>
Total Capital and surplus	<u>27,019,383</u>	<u>0</u>	<u>27,019,383</u>
Total Liabilities and Surplus	<u>\$40,664,938</u>	<u>\$0</u>	<u>\$40,664,938</u>

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

Net premium income	\$71,021,363
Change in unearned premium reserves and reserve for rate credits	<u>(383,102)</u>
Total revenues	<u>70,638,261</u>
Hospital and Medical:	
Hospital/medical benefits	37,456,818
Other professional services	5,956,010
Outside referrals	3,460,713
Emergency room and out-of area	2,232,115
Prescription drugs	6,081,833
Incentive pool withhold adjustments and bonus amounts	<u>2,200</u>
Subtotal	55,189,689
Less:	
Net reinsurance recoveries	<u>877,540</u>
Total Medical and Hospital	54,312,149
Claims adjustment expenses	6,177,390
General administrative expenses	4,899,790
Increase in reserves for accident and health contracts	<u>1,000,000</u>
Total underwriting deductions	<u>66,389,329</u>
Net underwriting gain or (loss)	<u>4,248,932</u>
Net investment income earned	1,028,641
Net realized capital gains or (losses)	<u>22,059</u>
Net investment gains	<u>1,050,700</u>
Aggregate write-ins for other income or expenses	<u>2,042</u>
Net income before federal income taxes	5,301,674
Federal and foreign income taxes incurred	<u>1,562,337</u>
Net income (loss)	<u>\$ 3,739,337</u>
<u>CAPITAL AND SURPLUS</u>	
Capital and surplus prior reporting year	<u>\$29,105,348</u>
Gains and Losses to Capital & Surplus:	
Net income or (loss)	3,739,337
Change in net deferred income tax	(280,864)
Change in nonadmitted assets	455,562
Change in surplus notes	<u>(6,000,000)</u>
Net change in capital and surplus	<u>(2,085,965)</u>
Capital and surplus end of reporting year	<u>\$27,019,383</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds

Most of the Plan'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 four years is as follows:

Year	A Bonds	B Cash & Short Term	C Ratio A/ Total Assets	D Ratio B/ Total Assets
2006	\$10,457,831	\$19,324,416	32%	59%
2007	15,013,875	9,975,076	41%	27%
2008	29,749,309	8,739,868	72%	21%
2009	30,979,594	6,542,037	76%	16%

As of December 31, 2009, the Plan had invested \$37,521,631 in the types of assets that must be maintained pursuant to ORS 733.580.

None of the Plan's bonds were 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 Plan's actuarial opinion and performed independent calculations for the claims liabilities as of December 31, 2009. Scott stated the following in his report:

I have reviewed the actuarial liabilities for the Company as done by Mary K. Hegemann, FSA, MAAA, of Wakely Consulting Group of Denver, CO for December 31, 2009. I have also reviewed other documentation, spreadsheets, and verbal information provided by the Company, our examiners, and Ms. Hegemann. I have performed independent calculations for the actuarial liability at December 31, 2009. Estimates for the Company's liabilities are as follows:

<u>Annual Statement Description</u>	<u>My Estimate</u>	<u>Annual Statement</u>
Claims unpaid	\$7,116,195	\$ 8,134,085
Accrued medical incentive pool and bonus payments	5,200	5,200
Unpaid claims adjustment expenses	284,648	444,000
Aggregate health policy reserves	1,596,655	1,596,655
Aggregate health claim reserves	0	0
Any actuarial reserves or liabilities not included in the items above	0	0
Total Actuarial Liabilities	\$9,002,698	\$10,179,940

Prior to my doing these calculations, Mark Giffin, as directed by Mike Phillips, checked certain cells for accuracy against the paid claim database provided to the examiners; no unusual findings were noted.

My calculation of the unpaid claims estimate is simply an accumulation of the payments incurred before the end of 2009 that were paid after the end of 2009 through September 30, 2010, which totaled \$5,930,162 for medical and other ancillary coverages claims, plus \$0 using lag completion factor methodology (claims considered 100% complete after nine months of runout), with 20% added for conservatism. The final estimate was \$7,116,195; \$1,017,890 less than Ms. Hegemann's estimate, which attests to her skill as an actuary.

The Company provided documentation of the \$5,200 Accrued Medical Incentive Pool and Bonus Amounts. This is too small to be material.

The Company's estimate for Unpaid Claims Adjustment Expenses amounts to 5.5% of Claims Unpaid. This is slightly more than what I am used to seeing since 4% is average for our domestic companies. Since my IBNR Reserve estimate includes 20% margin and the claims have been fully runout, I used the percentage of 4%. Multiplying my unpaid claim liability of \$7,116,195 by 4% produced the value of \$284,648.

Finally, the \$1,596,655 Aggregate Health Policy Reserves value consisted of two pieces. The first was a Risk Corridor Liability of \$596,655 for Medicare recoupment from CMS. The second was a Premium Deficiency Reserve of \$1,000,000. The Company took into account the 2010 pre-tax loss of \$833,250, offset this by an increased medical margin of \$560,663, and added \$700,000 for decreased investment income. Finally, the Company added \$27,413 to get to a round figure of \$1 million, since a reserve is just an estimate. The Company provided documentation which I was able to replicate that these two values were indeed correct, and thus the total Aggregate Health Policy Reserves value was correct.

My total estimate for actuarial liabilities of \$9,002,698 is less than the Company's estimate by \$1,177,242. Therefore, the statement of the actuarial liabilities at year-end for the annual statement was appropriate and adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Page

- 8 I recommend each officer, director, and the controller sign the conflict of interest statement as required by Article VI of the Conflicts of Interest Policy to comply with the NAIC Financial Examiners Handbook and ORS 733.210.

CONCLUSION

During the period covered by this examination, the surplus of the Plan has increased from \$8,872,404, as presented in the December 31, 2006, report of examination, to \$27,019,383, as shown in this report of examination. Comparative assets and liabilities are shown below:

	<u>2009</u>	December 31, <u>2006</u>	<u>Change</u>
Assets	\$40,664,938	\$32,922,438	\$ 7,742,500
Liabilities	<u>13,645,555</u>	<u>24,050,034</u>	<u>(10,404,479)</u>
Surplus	<u>\$27,019,383</u>	<u>\$ 8,872,404</u>	<u>\$18,146,979</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Ellen F. Quale, CPA, AFE, and Mark A. Giffin, CFE, insurance examiners and Scott L. Fitzpatrick, FSA, MAAA, actuary 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 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 Plan of CareOregon, 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 Plan of CareOregon, 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: _____