



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST  
DBA KAISER PERMANENTE  
PORTLAND, OREGON**

**NAIC COMPANY CODE 95540**

AS OF

DECEMBER 31, 2007

## TABLE OF CONTENTS

<b>SALUTATION</b> .....	<b>3</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>4</b>
<b>COMPANY HISTORY</b> .....	<b>5</b>
<b>MANAGEMENT AND CONTROL</b> .....	<b>5</b>
<i>Board of Directors</i> .....	5
<i>Officers</i> .....	7
<b>CONFLICT OF INTEREST</b> .....	<b>7</b>
<b>CORPORATE RECORDS</b> .....	<b>8</b>
<i>Board of Director Minutes</i> .....	8
<i>Articles of Incorporation</i> .....	8
<i>Bylaws</i> .....	8
<i>Parent, Subsidiaries and Affiliated Companies</i> .....	9
<i>Intercompany Agreements</i> .....	10
<i>Guaranty Agreement</i> .....	10
<i>Administrative Services Agreement</i> .....	10
<i>Management Services Agreement and Guaranty</i> .....	11
<i>Dental Services Agreement</i> .....	11
<i>Medical Services Agreement</i> .....	12
<b>FIDELITY BONDS AND OTHER INSURANCE</b> .....	<b>13</b>
<b>PENSION PLANS AND OTHER POST RETIREMENT BENEFITS</b> .....	<b>14</b>
<i>Employee Retirement Plans</i> .....	14
<i>Post Retirement Benefits</i> .....	14
<b>STATUTORY DEPOSIT</b> .....	<b>15</b>
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>15</b>
<b>GROWTH OF THE COMPANY</b> .....	<b>16</b>
<b>LOSS EXPERIENCE</b> .....	<b>17</b>
<b>REINSURANCE</b> .....	<b>17</b>
<i>Assumed Business</i> .....	17
<i>Ceded Business</i> .....	17
<i>Risk Retention</i> .....	18
<b>ACCOUNTS AND RECORDS</b> .....	<b>18</b>
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</b> .....	<b>18</b>
<b>SUBSEQUENT EVENTS</b> .....	<b>19</b>
<b>FINANCIAL STATEMENTS</b> .....	<b>19</b>
<i>Note 1 - Investments</i> .....	24
<i>Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves</i> .....	24
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS</b> .....	<b>25</b>
<b>CONCLUSION</b> .....	<b>25</b>
<b>ACKNOWLEDGMENT</b> .....	<b>26</b>
<b>AFFIDAVIT</b> .....	<b>27</b>

## SALUTATION

August 21, 2008

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 Commissioner and 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

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST  
DBA KAISER PERMANENTE  
500 NE Multnomah Street, Suite 100  
Portland, Oregon 97232**

**NAIC Company Code 95540**

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

## **SCOPE OF EXAMINATION**

The examination of the Company was conducted as of December 31, 2007, 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 NAIC for the purpose of determining the Company's financial condition, ability to fulfill and the manner of fulfillment of its obligations, nature of 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, 2004, published by the Oregon Insurance Division.

In addition to the above, work papers were reviewed that were prepared by KPMG LLP, the Company's independent auditors, during its audit of the Company's accounts for the years ended December 31, 2006 and 2007. Portions 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.

Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, participated in this examination by evaluating losses and loss adjustment expenses unpaid. Rae M. Taylor, FCAS, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, also participated in this examination by

evaluating the professional and general liability reserves. The results of both of their analyses are found under the relevant section of this report.

## **COMPANY HISTORY**

Kaiser Foundation Health Plan of Oregon commenced business on May 1, 1942, as a Washington corporation. It redomesticated to Oregon under the provisions of ORS Chapter 65 on October 19, 1981, and received its Certificate of Authority on December 30, 1981. On November 26, 1984, the present name was adopted, and effective February 13, 1995, the Plan adopted the assumed business name of Kaiser Permanente.

The Plan is a non-profit charitable corporation and is generally exempted from federal and state income taxes. It is a Federally qualified health maintenance organization (HMO) under the Health Maintenance Organization Act of 1973; however, the Plan has limited itself to the business of accepting the prepayment of health care services. The Plan is a health care service contractor under the provisions of ORS Chapter 750.

The Plan is a subsidiary of Kaiser Foundation Health Plan, Inc., (KFHP), a California nonprofit corporation and the sole member.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

Section D-1 of the Plan's Bylaws vest management and control of the Company in a Board of Directors. Section D-2 provides for 14 members, two of which are designated as inside Directors, one of whom is the Chairman of the Board and one is the senior officer of the Company as designated by the Chairman. All other directors shall be independent Directors. Section D-5(e) defines a quorum as a majority of the number of directors. The Board of Directors met all the requirements of ORS 750.015.

Members of the Board of Directors, duly appointed and serving as of December 31, 2007,  
 were:

<b><u>Name and Address</u></b>	<b><u>Principal Affiliation</u></b>	<b><u>Representative</u></b>
Christine K. Cassel Philadelphia, PA	President & CEO American Board of Internal Medicine	Medical
Thomas W. Chapman Bethesda, MD	President & CEO The HSC Foundation	Public
Daniel P. Garcia Los Angeles, CA	Sr. VP and COO Kaiser Foundation Health Plan, Inc. Kaiser Foundation Hospitals	Management
William R. Graber Orinda, CA	Former CFO McKesson Corporation	Public
J. Eugene Grigsby, III Los Angeles, CA	President & CEO National Health Foundation	Medical
George C. Halvorson* Oakland, CA	Chairman, CEO & President Kaiser Foundation Health Plan, Inc. Kaiser Foundation Hospitals	Management
Judith A. Johansen Lake Oswego, OR	Former Exec. VP & CEO PacifiCorp	Public
Kim J. Kaiser Seattle, WA	Pilot Alaska Airlines	Public
Philip A. Marineau San Francisco, CA	Former President & CEO Levi Strauss & Co.	Public
Jenny J. Ming Hillsborough, CA	Former President Old Navy	Public
Edward Y. W. Pei Honolulu, HI	Exec. VP, Consumer Banking Group First Hawaiian Bank	Public
J. Neal Purcell Alpharetta, GA	Retired	Public

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Representative</u>
Cynthia A. Telles Los Angeles, CA	Associate Clinical Professor UCLA School of Medicine	Medical
Sandra P. Thompkins Southington, OH	Executive Director, Human Resources Delphi Packard	Public
*Chairman		

### Officers

Operating management of the Company as of December 31, 2007, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Andrew R. McCulloch	Regional President
George C. Halvorson	CEO & President
Steven R. Zatkan	Sr. VP, General Counsel & Secretary
Thomas R. Meier	VP & Treasurer
Kathryn L. Lancaster	Exec. VP & CFO
Arthur M. Southam	Exec. VP, Health Plan Operations
Bernard J. Tyson	Exec. VP, Health Plan Hospital Operations
Christine L. Malcolm	Sr. VP, Hospital Strategy & National Facilities
Deborah Stokes	VP, Controller & CAO

### CONFLICT OF INTEREST

The Company has a conflict of interest policy that is stated in the Principles of Responsibility, a system-wide code of conduct. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. 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 of interest were noted.

## **CORPORATE RECORDS**

### **Board of Director Minutes**

In general, the review of 2005 to 2007 Board meeting minutes, as well as the various committees authorized by the Bylaws, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review. In addition, the minutes indicated the Board approves officer salaries through the executive and compensation committees to comply with the provisions of ORS 732.320(3).

Article F of the Bylaws allow for an Executive Committee and such other committees as the Board may appoint to advise and assist in managing the corporation's affairs. At December 31, 2007, the Company's Board had appointed the following committees:

- Executive
- Audit and Compliance
- Finance
- Community Benefits
- Quality and Health Improvement
- Governance, Accountability and Nominating
- Compensation

### **Articles of Incorporation**

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

### **Bylaws**

The Bylaws of the Company were amended twice during the period under review; the first changed the number of members on the Executive Committee from six to seven members. The second made a number of minor technical changes. The Bylaws conformed with Oregon statutes.

**Parent, Subsidiaries and Affiliated Companies**

Insurance holding company registration statements were filed on behalf of the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020. The Company is part of an insurance holding company system under the umbrella name of Kaiser Permanente, which is composed of Kaiser Foundation Health Plans and Kaiser Foundation Hospitals.

Kaiser Foundation Health Plan, Inc. (KFHP) is a California nonprofit public benefit corporation that primarily controls all the Kaiser health plans and insurance companies throughout the United States. KFHP is the sole member of the Company.

Kaiser Foundation Hospitals (KFH) is a California nonprofit public benefit corporation that owns and operates community hospitals in California, Oregon, and Hawaii, owns outpatient facilities in several states which provides or arranges hospital services, and sponsors charitable, educational, and research activities.

In addition to the parent and affiliates described above, the Company has one subsidiary:

Kaiser Permanente Oregon Plus, LLC (KPOP) is a wholly owned Oregon subsidiary formed as 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.

Closely allied, but not formally affiliated to the Company, are the Permanente Medical Groups, which are comprised of a number of for-profit professional organizations of medical providers—one or more in each Kaiser Permanente division/region, including Northwest Permanente, P.C., and Permanente Dental Associates in Oregon and Southwest Washington.

The full responsibility for providing and arranging necessary medical and dental care is assumed in each division/region by the Permanente Medical Groups.

**Intercompany Agreements**

As of December 31, 2007, the Plan was party to the following agreements with affiliates:

**Guaranty Agreement**

Effective April 1, 1989, the Plan entered into a guaranty agreement with KFHP, KFH, and ten other Kaiser affiliates collectively referred to as the Subsidiary Health Plans. Under the terms of this agreement, KFHP and KFH agree to unconditionally guaranty all the liabilities, debts and obligations of the Subsidiary Health Plans.

**Administrative Services Agreement**

Effective December 1, 2000, and amended December 23, 2003, and July 1, 2004, the Plan entered into an agreement with KFHP, whereby KFHP will provide specific administrative services to the Plan, including pharmaceutical, invoice payment, human resource, risk management and insurance, cash management, retirement, personal advantage, and claims shared services. Compensation varies based on the services provided, but generally the Plan pays either (a) a per member per month fee, (b) an amount based on the actual cost of providing the service, or (c) such other amounts as the parties may negotiate from time to time for services provided under this agreement. The agreement is silent regarding a due date for payment. This agreement has no termination date, but will remain in effect for as long as KFHP remains the sole corporate member of the Plan, unless terminated by mutual agreement of the parties.

### **Management Services Agreement and Guaranty**

Effective May 1, 2005, the Plan entered into an agreement with its direct subsidiary, KPOP, whereby the Plan agrees to provide all administrative and clinical services required under the Oregon Health Plan contract with DMAP, all professional negligence and other insurance coverages, and all claims handling services. In addition, the Plan agrees to ensure KPOP is adequately capitalized and funded, and agrees to guaranty the obligations under the DMAP Contract. In return, KPOP will pay to the Plan a capitated amount per member, less any direct expenses. This is expected to result in little or no net income in KPOP, even if this compensation is inadequate to fully pay the Plan's expenses. The Plan will account for any such shortfall and include it as part of its direct community benefit investment. This agreement has no termination date, but will continue in effect so long as the DMAP Contract is in effect.

As noted earlier in this report, the Company contracts with two medical providers within the Permanente Medical Groups.

### **Dental Services Agreement**

The Company and Permanente Dental Associates, P.C., entered into an agreement effective January 1, 1985, whereby the dental group will provide to all members all dental services required by or incident to membership contracts. The Company is responsible for providing all assistants, hygienists, receptionists, denturists, technicians, parodontal and administrative personnel, and will provide, repair and maintain dental care facilities, equipment and supplies required by the dental group. Each year, a memorandum of understanding (MOU) is created to define the terms and projections relating to the Dental Care Program. The Company paid a

combination of base compensation and a planned at-risk portion, as described in the annual MOU, and settled these amounts on a monthly basis.

#### **Medical Services Agreement**

Effective October 1, 2001, the Company entered into an agreement with Northwest Permanente, P.C., for all medical services required by or incident to membership contracts. The Plan will furnish all facilities, equipment and supplies and will engage or arrange for nurses, technicians and other paramedical, receptionists, clerical and administrative personnel. Payments are a combination of base compensation, which is determined by a per member price and an aggregate member price adjusted for certain costs and research revenues, and an at-risk compensation, which acts as an incentive program. Each year, an MOU is created to define the terms and projections relating to this Agreement. In addition, the Plan will provide amounts required to satisfy all liability on account of professional and general liability claims and torts arising against the medical providers, including all costs incurred in connection with a loss prevention program.

#### **Investment Account Participation Agreement**

Effective December 21, 2007, KFHP, KFH, the Company, and several affiliated regional Health Plans entered into an Investment Account Participation Agreement (IAPA) to establish a trust account to invest in fixed income securities, funded by the cash balances held in the concentration accounts. The agreement established sub-accounts in the name of the trust and for the benefit of each participant to provide an undivided interest in each of the underlying assets of the trust in proportion to the participant's contribution. Wells Capital Management will manage the account and have investment authority as described in the investment guidelines in the agreement. State Street Bank & Trust Company will be the custodian under an Amended and Restated Custodian Contract.

Prior to this IAPA, and as part of the Administrative Services Agreement, KFH had established a cash concentration account to transfer funds to and from the various regional health plans, including the Company. On each business day, KFH, on behalf of KFHP, initiated a drawdown of the Company's concentration account and transferred the balance from the Company to the KFH corporate concentration account. As the Company required funds for either its disbursement or payroll accounts, a transfer was made from KFH. All of the regional health plans participated in the daily sweep of positive cash balances. As of September 30, 2007, the Company reported a receivable due from parent, subsidiaries, affiliates totaling \$486,593,592.

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

The examination of insurance coverages involved a review of the adequacy of limits and retentions, and the solvency of the insurers providing the protection. The Company is a named insured on a policy issued to KFHP for up to \$16,400,000 per occurrence against losses from acts of dishonesty and fraud by its employees. It was noted that this fidelity bond coverage more than met the minimum coverage recommended by the NAIC. In addition, the Company has directors and officers' liability coverage with a \$20,000,000 limit. All other insurance coverages in force at December 31, 2007, were as follows:

Non-owned aircraft liability	Automobile liability
Professional and general liability	Property
Excess liability	Workers' compensation

The limits for the above coverages were found to be adequate as of December 31, 2007. KFHP and all of its subsidiary health plans, including the Company, self-administer its professional and general liability claims through an affiliated entity, Lokahi Assurance, Ltd. In her actuarial review, Rae M. Taylor, FCAS, MAAA, actuary for the Oregon Insurance Division, concluded the Company established a self-insured liability of \$21.2 million. Of

this amount, \$15.6 million provided coverage for Professional and General Liability. The review indicated that the liability established by Kaiser Foundation Health Plan of the Northwest as of December 31, 2007, for the reviewed self-insured Professional and General Liability may be understated by approximately \$1.8 million. This is approximately an 11% increase in the liability. However, Kaiser's capital and surplus was \$494.2 million. The difference compared to Kaiser's surplus is not material.

KFHP formed a captive insurer, Oak Tree Assurance, Ltd., for its excess liability and workers' compensation risks.

## **PENSION PLANS AND OTHER POST RETIREMENT BENEFITS**

### **Employee Retirement Plans**

The Company participates in the Kaiser Permanente Retirement Plan, covering substantially all employees. The retirement plan is separated into a number of supplemental plans, with participants segregated by such attributes as region, union participation, and job description. Benefits are based on age at retirement, years of credited service, and average compensation for a specific period prior to retirement. There were no employee contributions made during the period under examination, and the Plan contributed approximately \$18.7 million in 2005, \$0 in 2006, and \$20.5 million in 2007 for its employees. Costs associated with the pension plan are charged directly to the current operations.

### **Post Retirement Benefits**

The Company has a program in place for those employees eligible for health care and life insurance benefits upon retirement while working for the Plan.

### **STATUTORY DEPOSIT**

As of the date of the examination, the Company maintained a deposit with the Oregon Insurance Division, Department of Consumer Business Services, in two US Treasury Notes with a combined total of \$556,000 (par value), pursuant to the provisions of ORS 750.045(2). The deposit was verified from the records of the Insurance Division. In addition, the Company maintained a deposit with the State of Washington, Office of the Insurance Commissioner, in a \$190,000 cash deposit. Both deposits were listed in the 2007 Annual Statement on Schedule E – Part 3.

The Company also reported \$2,752,000 (par value) in US Treasury Notes held at US Bank as a special deposit on Schedule E – Part 3. These notes are owned by the Company, however, they are not on deposit with the Insurance Division and should not have been reported as a special deposit. The Company will correct this reporting in future filings.

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

The Company offers accident, dental, vision and health insurance in the States of Oregon and Washington. This is coordinated through independent and in-house agents, and most of the marketing is focused on commercial groups located in an area stretching from the Willamette Valley in Oregon, north along the I-5 corridor, and into Southwest Washington, since that is where the medical facilities are located. The Company is authorized to write business in Oregon and Washington.

Members are treated at health care facilities owned by the Company. The primary service areas include Portland and Salem, Oregon, and Vancouver and Kelso-Longview, Washington. The Plan is essentially an administrative and contracting organization whose

primary functions are: enrolling health plan members; maintaining membership records; collecting membership dues; and providing medical and dental health care services.

The Plan owns or leases the medical and dental offices at non-hospital locations and employs the supporting personnel in these medical and dental offices. The Plan is not a provider of health care services except to the extent that non-physician personnel at non-hospital locations (e.g., clinic nurses) provide health care services under the direction of physicians. Healthcare benefits are made available to Plan members through contracts with Kaiser Foundation Health Plan, Northwest Permanente, P.C., and Permanente Dental Associates.

In addition to the contracts described above, the Plan pays for treatment at unaffiliated medical facilities in the case of an emergency when the member is outside of the coverage area or when the treatment is not available at the Company's facilities.

### **GROWTH OF THE COMPANY**

The growth of the Company over the last five years is reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements, except in those years where a report of examination has been published by the Oregon Insurance Division.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Surplus and Other Funds</u></b>	<b><u>Net Income (Loss)</u></b>
2003	\$461,321,015	\$220,471,551	\$240,849,464	\$41,858,894
2004*	556,980,462	245,263,443	311,717,019	59,252,066
2005	606,234,313	247,077,340	359,156,973	36,944,016
2006	711,090,579	281,091,642	429,998,937	45,378,467
2007*	838,938,359	344,742,320	494,196,039	59,041,115

\*Per examination

Surplus increased in each year of the examination period due to net income from operations and reductions in non-admitted assets.

## LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the examination reports.

<u>Year</u>	<u>(1) Total Revenues</u>	<u>(2) Total Hospital and Medical</u>	<u>(3) Claim Adjustment and General Expenses</u>	<u>(2)+(3)/(1) Combined Loss Ratio</u>
2003	\$1,435,447,374	\$1,348,892,366	\$ 50,853,980	97.5%
2004*	1,628,933,737	1,499,466,488	78,392,613	96.9%
2005	1,829,997,429	1,711,755,281	94,204,655	98.7%
2006	2,028,387,437	1,908,057,550	99,886,656	99.0%
2007*	2,208,389,963	2,074,071,275	107,801,349	98.8%

\*Per examination

A combined loss incurred and expense to premium ratio of more than 100% would indicate an underwriting loss. The Company reported underwriting gains in all five years.

## REINSURANCE

### Assumed Business

The Company had assumed no business during the period under examination.

### Ceded Business

Prior to 2004, the Company had a single stop loss contract for its commercial point-of-service (POS) out of network risks and those out of network claims at in-network facilities. Beginning January 1, 2004, the Company self-insures its risk.

Due to the merger of a subsidiary, Kaiser Permanente Health Alternatives (KPHA), which was approved by the Oregon Insurance Division on November 16, 2007, and effective December 1, 2007, the Company inherited an HMO Reinsurance agreement between KPHA and HCC Life Insurance Company, with a retention of \$100,000 and a maximum

reimbursement of \$2 million in aggregate per risk. This agreement terminated on December 31, 2007, upon the end of the contract year.

**Risk Retention**

In view of the Company's reported surplus of \$494,196,039 at December 31, 2007, it appears the Company does not maintain risk on any one subject in excess of ten percent of its surplus to policyholders, in compliance with ORS 731.504.

**ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2007, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the Company's disaster recovery plan, it was determined that the current information system possessed the physical and internal controls as prescribed by the NAIC. The Company has a system in place to account for unclaimed funds. The Company has filed the reports on abandon property pursuant to the provisions of ORS 98.352.

The examiners noted no issues or concerns that would indicate non-compliance with the Oregon Insurance Code. A management letter was prepared and submitted to the Company.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company has taken corrective action with respect to the one recommendation made in the 2004 report of examination.

### **SUBSEQUENT EVENTS**

There were no events subsequent to the examination date that would require additional disclosure or that would materially affect the financial position reported in this report of examination.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial conditions of Kaiser Foundation Health Plan of the Northwest, as of December 31, 2007:

Statement of Assets;  
Statement of Liabilities, Capital and Surplus;  
Statement of Revenues and Expenses; and  
Reconciliation of Surplus Since the last Examination.

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST**  
**STATEMENT OF ASSETS**  
**As of December 31, 2007**

	BALANCE PER COMPANY	EXAM ADJUSTMENT	BALANCE PER EXAM	NOTE
<b>Assets</b>				
Bonds	\$ 540,373,772	\$ -	\$ 540,373,772	1
Real estate (Schedule A)				
Properties occupied by the company	176,600,456	-	176,600,456	
Properties held for production of income	3,973,113	-	3,973,113	
Cash and short-term investments	3,916,844	-	3,916,844	1
Other invested assets (Schedule BA)	500,000	-	500,000	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$ 725,364,185</u>	<u>\$ -</u>	<u>\$ 725,364,185</u>	
Investment income due and accrued	5,463,346	-	5,463,346	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	26,843,592	-	26,843,592	
Amounts receivable relating to uninsured plans	12,296,608	-	12,296,608	
Net deferred tax asset	16,746	-	16,746	
EDP equipment and software	745,560	-	745,560	
Health care delivery assets	68,100,067	-	68,100,067	
Receivables from parent, subsidiaries, and affiliates	108,255	-	108,255	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	<u><u>\$ 838,938,359</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 838,938,359</u></u>	

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST  
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS  
As of December 31, 2007**

	BALANCE PER COMPANY	EXAM ADJUSTMENT	BALANCE PER EXAM	NOTE
<b>Liabilities, Capital and Surplus</b>				
Claims unpaid	\$ 48,584,400		\$ 48,584,400	2
Unpaid claims adjustment expense	632,000		632,000	
Premiums received in advance	21,640,426		21,640,426	2
General expenses due or accrued	21,140,271		21,140,271	
Current FIT payable and interest thereon	142,561		142,561	
Amounts withheld or retained for account of others	53,784,982		53,784,982	
Amounts due to parent, subsidiaries, and affiliates	25,131,756		25,131,756	
Aggregate write-ins for liabilities	173,685,924	-	173,685,924	
<b>Total Liabilities</b>	<b>\$ 344,742,320</b>	<b>\$ -</b>	<b>\$ 344,742,320</b>	
Common capital stock	-		-	
Gross paid in and contributed surplus	2,753,051		2,753,051	
Unassigned funds (surplus)	491,442,988		491,442,988	
<b>Total capital and surplus</b>	<b>494,196,039</b>	<b>-</b>	<b>494,196,039</b>	
<b>Total liabilities, capital and surplus</b>	<b>\$ 838,938,359</b>	<b>\$ -</b>	<b>\$ 838,938,359</b>	

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST**  
**STATEMENT OF REVENUE AND EXPENSES**  
**For the Year Ended December 31, 2007**

	BALANCE PER COMPANY	EXAM ADJUSTMENT	BALANCE PER EXAM	NOTE
Net premium income	\$ 2,182,511,760	\$ -	\$ 2,182,511,760	
Fee for service	13,093,336		13,093,336	
Risk revenue	8,677,947		8,677,947	
Aggregate write-in for health care revenue				
	4,106,920	-	4,106,920	
<b>Total Revenues</b>	<b>2,208,389,963</b>	<b>-</b>	<b>2,208,389,963</b>	
<b>Hospital and Medical:</b>				
Hospital/medical benefits	983,337,410		983,337,410	
Other professional services	199,711,103		199,711,103	
Outside referrals	132,174,149		132,174,149	
Emergency room and out-of-area	74,451,260		74,451,260	
Prescription drugs	199,086,393		199,086,393	
Aggregate write-ins for other hospital and medical	485,285,749	-	485,285,749	
<b>Subtotal:</b>	<b>2,074,046,064</b>	<b>-</b>	<b>2,074,046,064</b>	
<b>Less:</b>				
Net reinsurance recoveries	(25,211)	-	(25,211)	
<b>Total medical and hospital</b>	<b>2,074,071,275</b>	<b>-</b>	<b>2,074,071,275</b>	
Non-health claims	-	-	-	
Claim adjustment expenses	22,240,625	-	22,240,625	
General administrative expenses	85,560,724	-	85,560,724	
Increase in reserves for life and accident and health contracts	-	-	-	
<b>Total underwriting deductions</b>	<b>2,181,872,624</b>	<b>-</b>	<b>2,181,872,624</b>	
Net underwriting gain or loss	26,517,339	-	26,517,339	
Net investment income earned	30,022,546	-	30,022,546	
Net realized capital gains or (losses)	(417,970)	-	(417,970)	
Net investment gains or (losses)	29,604,576	-	29,604,576	
Net gain from premium balances charged off	972		972	
Aggregate write-ins for other income or expense	2,941,224		2,941,224	
<b>Net income or (loss) before federal income taxes</b>	<b>59,064,111</b>	<b>-</b>	<b>59,064,111</b>	
Federal and foreign income taxes incurred	22,996	-	22,996	
<b>Net Income (loss)</b>	<b>\$ 59,041,115</b>	<b>\$ -</b>	<b>\$ 59,041,115</b>	

**KAISER FOUNDATION HEALTH PLAN OF THE NORTHWEST  
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION  
For the Year Ended December 31, 2007**

	2007	2006	2005
<b>Capital and surplus, December 31, previous</b>	<b>\$ 429,998,937</b>	<b>\$ 359,156,973</b>	<b>\$ 308,406,972</b>
Net income	59,041,115	45,378,467	36,944,016
Change in net unrealized capital gains or (losses)	-	-	-
Change in net deferred income tax	-	-	-
Change in nonadmitted assets	1,556,707	24,876,428	11,055,126
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	587,069	2,750,859
Capital changes:	-	-	-
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	3,599,280	-	-
Change in surplus as regards policyholders for the year	<u>64,197,102</u>	<u>70,841,964</u>	<u>50,750,001</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 494,196,039</u>	<u>\$ 429,998,937</u>	<u>\$ 359,156,973</u>

AWI Note: KPHA was merged into the Company effective December 1, 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 - Investments

Most of the Plan's long-term bond investments were in US Treasury obligations, federal agency bonds, special revenue bonds, and corporate issues. The Plan did have some exposure to mortgaged-backed and asset-backed securities, but all issues were investment rated. Cash and short-term deposits consisted of cash on deposit, a US Treasury Note, corporate notes, and negotiable CDs with maturities of less than one year from the date of acquisition. A comparison of the investments over the past five years is as follows:

<b>Year</b>	<b>A Bonds</b>	<b>B Cash and Short-term</b>	<b>Ratio A/ Total Assets</b>	<b>Ratio B/ Total Assets</b>
2003	26,176,949	(4,889,479)	5.7%	(1.1)%
2004	27,041,195	(9,828,846)	4.8%	(1.8)%
2005	27,739,669	(15,819,265)	4.6%	(2.6)%
2006	21,356,988	9,291,895	3.0%	1.3%
2007	540,373,772	3,916,844	64.4%	0.5%

The minutes indicated that the Board reviews and approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. As of December 31, 2007, invested assets with a reported book value of \$121,022,287, representing 17% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the required capitalization amount required by ORS 733.580.

The substantial increase in invested assets in 2007 represents the settlement of a large intercompany receivable that had been accumulating over the past several years. See the Corporate Records, Intercompany Agreements portion of this report for a description of the IAPA.

Effective December 31, 2007, the Company entered into a written Intercompany Lending Agreement with KFH to maintain the cash concentration account. KFH will borrow from the Company those daily amounts not required for operational purposes. The balances lent shall not exceed a maximum of 7.5% of the Company's total net admitted assets. Any amounts above this threshold will be settled through the IAPA into the sub-account owned by the Company as described on page 12 of this report. Amounts borrowed will earn interest at a rate of LIBOR plus 50 basis points paid annually each June 30. This agreement has a termination date of November 1, 2011.

### Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves

Scott L. Fitzpatrick, FSA, MAAA, life and health actuary for the Oregon Insurance Division, reviewed the loss and loss adjustment expenses in the Company's filed financial statements as of December 31, 2007. The purpose of his review was to determine, in general, if the Company's liabilities were reasonably stated. In his opinion, he concluded:

I have reviewed the actuarial liabilities for the Company as done by Craig Winkler, ASA, MAAA, of the Company in Portland, OR, for December 31, 2007. I have also reviewed other documentation, spreadsheets, and verbal information provided by the Company, our examiners, and Mr. Winkler. I have performed independent calculations for the actuarial liability at December 31, 2007. Estimates for the Company's liabilities are as follows:

	<u>My Estimate</u>	<u>Annual Statement</u>
Claims Unpaid	\$48,071,638	\$48,584,400
Unpaid Adjustment Expenses	<u>653,000</u>	<u>632,000</u>
Total Actuarial Liabilities	<u>\$48,724,638</u>	<u>\$49,216,400</u>

My total estimate for actuarial liabilities is less than the company's estimate by a reasonable \$491,762, which is more than 1%. The statement of the actuarial liabilities at year-end for the annual statement was conservative to the proper degree for this company, and the Company's reserves were sufficient to cover their liabilities for the stated items at the end of 2007.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no comments or recommendations made as a result of this examination.

### **CONCLUSION**

During the three-year period covered by this examination, the surplus of the Plan has increased from \$311,717,019, as presented in the December 31, 2004 report of examination, to \$494,196,039, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<b>December 31,</b>		
	<b><u>2007</u></b>	<b><u>2004</u></b>	<b><u>Change</u></b>
Assets	\$ 838,938,359	\$ 556,980,462	\$ 281,957,897
Liabilities	<u>344,742,320</u>	<u>245,263,443</u>	<u>99,478,877</u>
Surplus	<u>\$ 494,196,039</u>	<u>\$ 311,717,019</u>	<u>\$ 182,479,020</u>

## **ACKNOWLEDGMENT**

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

In addition to the undersigned, Mark Giffin, CFE, Raymond W. Anderson, AFE, Ellen Quale, and Michael P. Phillips, CPA, CFE, AES, insurance examiners, also Scott L. Fitzpatrick, FSA, MAAA, and Rae M. Taylor, FCAS, MAAA, actuaries for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1.     I have authority to represent the state of Oregon in the examination of Kaiser Foundation Health Plan of the Northwest.
  
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 Kaiser Foundation Health Plan of the Northwest was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

\_\_\_\_\_  
Greg A. Lathrop, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Notary Public for the State of Oregon

My Commission Expires: \_\_\_\_\_