



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
PORTLAND, OREGON**

NAIC COMPANY CODE 84930

AS OF

DECEMBER 31, 2007

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SALUTATION

March 6, 2009

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

**LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
2020 SW 4th Street, Suite 1000
Portland, Oregon 97201**

NAIC Company Code 84930

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

SCOPE OF EXAMINATION

The examination of the Company was conducted as of December 31, 2007, covering the four 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 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 recommendations in the previous financial report of examination as of December 31, 2003, 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 work papers of this examination 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. The results of his analysis are found under the relevant section of this report.

COMPANY HISTORY

The Company was incorporated as a for-profit corporation in the State of Oregon on August 7, 1986, as Pacific Health and Life Insurance Company. On December 24, 1986, the Oregon Insurance Division issued a Certificate of Authority under ORS Chapter 732 to transact life and health lines of business. The Company shared offices with Klamath Medical Service Bureau (KMSB) in Klamath Falls, Oregon, until 1987, when it moved its operations to Bend, Oregon.

On January 6, 1994, the Oregon Insurance Division approved the acquisition of all the outstanding shares of common stock of the Company by Washington-Alaska Group Services, Inc. (WAGS), a Washington for-profit corporation doing business as an insurance sales agency. WAGS was a wholly-owned subsidiary of Blue Cross of Washington and Alaska (BCWA), a non-profit Blue Cross Blue Shield licensed health care service contractor based in Mountlake Terrace, WA. As a result, on January 10, 1994, 100% of the shares of common stock were purchased for \$18,100,000, which represents a per share price of approximately \$54.52 for the outstanding 332,015 shares, payable as follows:

Disbursed to PH&L shareholders	\$ 15,819,000
Brokers' fee	158,190
Retained in escrow	<u>2,122,810</u>
Total	<u>\$ 18,100,000</u>

In August 1994, BCWA formed an affiliation with Medical Service Corporation of Eastern Washington, based out of Spokane, Washington, which resulted in the formation of PREMERA, a Washington nonprofit corporation and the member sole of BCWA. In June 1998, Blue Cross of Washington and Alaska and Medical Service Corporation formally merged under the name Premera Blue Cross.

On July 2, 1997, the Company received permission from the Oregon Insurance Division to change its name to LifeWise, a PREMERA Health Plan, Inc. Effective June 2002, the Company received approval to again change its name to LifeWise Health Plan of Oregon, Inc., dba LifeWise Health Plan of Oregon.

Capital Stock

During most of the period under examination, the Company was authorized under Article III of its Article of Incorporation to issue 1,500,000 shares of common stock of \$1.00 par value per share. The Company had issued 332,015 shares to its direct parent, WAGS (now known as Ucentris Insured Solutions, Inc.), representing 100% of the shares outstanding. On May 29, 2007, the Articles were amended to reduce the total number of authorized shares down to 332,015, and to increase the par value to \$6.03 per share. No additional capital or paid-in surplus had been contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

From 2004 to 2007, the Company declared and paid a dividend to its stockholder as follows:

<u>Declared date</u>	<u>Paid date</u>	<u>Amount</u>	<u>Description</u>
9/17/2004	10/8/2004	\$ 10,000,000	Ordinary

The \$10 million cash distribution was approved by the Oregon Insurance Division pursuant to ORS 732.554 and 732.576.

MANAGEMENT AND CONTROL

Board of Directors

The Company's Bylaws, Section 2.09, state that the Board of Directors shall have sole responsibility for the management of the business of the corporation. Section 2.01 provides the members of the Board shall not be less than five (5) members nor more than thirteen (13),

the exact number fixed from time to time by resolution of the Board. Section 2.06 defines a quorum as a majority of directors then serving on the Board. The Board of Directors met all the requirements of ORS 732.305.

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

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Appointed</u>
Brian E. Ancell Woodinville, WA	Exec. Vice President of Health Care Services and Strategic Development Premera Blue Cross	2007
Allison J. Bechtol Milwaukie, OR	Vice President, Network Development LifeWise Health Plan of Oregon	2007
Majd F. El-Azma Lake Oswego, OR	President and CEO LifeWise Health Plan of Oregon	2007
Kent S. Marquardt Kirkland, WA	Exec. Vice President and CFO Premera Blue Cross	2007
L. Heyward Rutledge Donigan* Sammamish, WA * Chair of the Board	Exec. Vice President and Chief Marketing Officer Premera Blue Cross	2006

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>
Majd F. El-Azma	President and CEO
John H. Pierce	Vice President, General Counsel and Secretary
Sharilyn A. Campbell	Vice President, Finance and Treasurer
Audrey L. Halvorson	Sr. Vice President and Chief Actuary
Richard A. Maturi	Sr. Vice President, Health Care Delivery Services
Allison J. Bechtol	Vice President, Network Development
Rakesh "Roki" Chauhan, MD	Vice President, Medical Director
Thomas E. Hebner	Vice President, Operations
Sharon S. Howe	Vice President, Underwriting
David A. Lechner	Vice President, Sales and Marketing
Jeffrey E. Roe	Vice President, Individual Sales

CONFLICT OF INTEREST

The Company has a conflict of interest policy that is stated in the Premera Code of Ethics and Business Conduct, 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 2004 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. However, the minutes did not indicate the Board approves officer salaries. **I recommend the Board develop a procedure to formally approve all compensation of its officers to comply with the provisions of ORS 732.320(3).**

Section 2.10 of the Bylaws allow for an Executive Committee and Section 2.11 allows such other committees as the Board may appoint to advise and assist in managing the corporation's affairs. During the period under examination, the Company's Board had an Audit Committee and an Investment Committee. On March 11, 2008, the Board resolved to disband both the Audit and Investment Committees. Items formerly brought to these committees will now be decided by the Board as a whole.

Articles of Incorporation

As was noted earlier, the Company amended its Articles of Incorporation on May 29, 2007, to change the number of authorized shares and to increase the par value to \$6.03 per share. The Articles of Incorporation conformed to Oregon statutes.

Bylaws

The Bylaws conformed to Oregon statutes. No amendments were made to the Bylaws during the period under review.

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 holding company structure is comprised of the following entities:

PREMERA is a Washington nonprofit corporation. PREMERA is the sole member of Premera Blue Cross by virtue of their power to appoint all the members of the Board and would be considered the ultimate controlling entity.

Premera Blue Cross (PBC) is a Washington nonprofit public benefit corporation that is a Blue Cross Blue Shield licensed health care service contractor based in Mountlake Terrace, Washington. It sells health insurance plans under the Blue Cross license in all of Washington state (except Clark County) and under Blue Shield license in eastern Washington. It also sells under both the Blue Cross and Blue Shield licenses in Alaska. It also directly or indirectly owns smaller health insurance operations in Washington, Oregon, and Arizona under the LifeWise brand.

PremeraFirst, Inc., is a Washington based for-profit corporation formed to act as an agent for contracting with provider networks. PremeraFirst is owned directly by PBC.

LifeWise Health Plan of Arizona, Inc., is a Washington domiciled life and disability insurer originally known as MSC Life Insurance Company. The insurer changed its name in 2002 and began writing health business in the State of Arizona in 2004. This company is owned directly by PBC.

Ucentris Insured Solutions, Inc., is a Washington based for-profit corporation owned 100% by PBC. Ucentris is an insurance agency/broker formerly known as Washington-Alaska Group Services (WAGS). Ucentris owns 100% of the outstanding shares of the Company and would be considered the Company's direct parent.

NorthStar Administrators, Inc., is a Washington based for-profit corporation formed to act as a third-party administrator. NorthStar is owed directly by Ucentris.

LifeWise Administrators, Inc., is a Washington for-profit corporation formed to provide consolidated billing and collection services to Premera affiliates. It also provides administrative services to employer groups, associations, multiple-employer groups, trusts, and any other organization that provides health benefit plan coverage to employees. LifeWise Administrators is owned directly by Ucentris.

Calypso Healthcare Solutions is a Washington non-profit corporation formed to provide investigation and recovery services to health plans and self-funded employer benefit plans. Calypso is owned directly by Ucentris.

LifeWise Health Plan of Washington is a Washington domiciled health care service contractor that provides group and individual health coverage to residents of the State of Washington. This Plan is owned directly by Ucentris.

LifeWise Assurance Company (LAC) is a Washington domiciled life and health insurer formerly known as States West Life Insurance Company. LAC is owned directly by Ucentris, and is authorized in 11 states, primarily in the Western Zone.

The Company has one subsidiary, as follows:

Western Benefits Administrators is an Oregon for-profit corporation. This corporation is currently inactive.

INTERCOMPANY AGREEMENTS

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

Intercompany Agreement (Allocation of Costs)

Effective January 10, 1994, and amended October 31, 2007, the Company entered into an agreement with PBC to establish cost allocation methods and procedures to allocate operating expenses between affiliates. PBC maintains an activity based cost accounting system, whereby operating expenses are accumulated in accordance with GAAP. Costs are then allocated at the account level within each department number, and settlements shall occur within 60 days of the date at which PBC and/or any affiliate incurs such costs.

Subsidiary Tax Sharing Agreement

Effective November 21, 1994, and amended effective October 31, 2005, the Company became party to a tax sharing agreement with PBC and all other PREMIERA affiliates.

Under the agreement, the Company's federal tax liability is consolidated with that of PBC, and allocated based on a calculation of the separate tax liability of each subsidiary, adjusted for any special tax attributes. Intercompany tax balances are settled quarterly upon payment of the estimated taxes and the filing of the consolidated federal tax return.

Administrative Services Agreement

Effective August 1, 2005, LifeWise Administrators, Inc., entered into an agreement with the Company to provide COBRA-related administrative services. The Company will reimburse LifeWise Administrators any and all costs, charges and expenses incurred under the Intercompany Agreement (Allocation of Costs) described above. The agreement will be in effect for a three-year period starting July 1, 2005, and will automatically renew for an additional three year term unless terminated.

Services Agreement

Effective February 1, 2005, Calypso Healthcare Solutions entered into an agreement with the Company to provide investigation, recovery and preventative services related to overpayment of claims. The Company shall pay a fee equal to 13% of the amounts recovered, payable monthly. The agreement will be in effect for a three-year period starting February 1, 2005, and will automatically renew each year thereafter, unless terminated.

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 for up to \$10,000,000 per occurrence against losses from acts of dishonesty and fraud by its employees, after a \$200,000 deductible. It was noted that this fidelity bond coverage exceeded the minimum coverage recommended by the NAIC. In

addition, the Company has directors and officers' liability coverage with a \$50,000,000 aggregate limit, after a \$500,000 deductible per loss. All other insurance coverages in force at December 31, 2007, were as follows:

Real and personal property	Commercial general liability
Automobile liability & physical damage	Umbrella/Excess liability
Computer crime	Fiduciary liability
Managed care errors and omissions	Workers' compensation

The limits for the above coverages were found to be adequate as of December 31, 2007.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Employee Retirement Plans

The Company participates in two qualified retirement plans established by Premera Blue Cross, a 401(k) contribution plan and a Pension Equity Plan (PEP). Both of these plans are open to all employees of PREMERA and its subsidiaries. Participants in the 401(k) plan may contribute up to 50% of their compensation into a retirement savings plan, and the Company will match 50% of the employee's contribution, up to a maximum of 3% of total compensation. The employee is vested in the matching portion after one year of continuous service. In the PEP, which is a defined benefits plan, employees are credited with earned percentages that accumulate over the years of service, under the following formula:

<u>Benefit Years of Service</u>	<u>Percentage</u>
1-5	5% each year
6-10	8% each year
11-15	10% each year
16-20	12% each year
21-30	15% each year
31+	0%

The earned percentages are added up, and the accumulated percentages are multiplied by the employee's final average pay. The amount is distributed in a lump sum upon retirement.

Vesting in the PEP is five years, each year defined as a continuous 12-month period. The maximum percentage could total 325% of the final average pay.

The Company also participates in a nonqualified defined benefit supplemental retirement program covering certain executive managers. Participants must hold a position approved by the president and Board of Directors as having a significant corporate-wide impact on accomplishing the Company's strategic goals and objectives. Benefits are based on years of service and the participant's highest earnings during the term of service with the Company.

Post Retirement Benefits

The Company participates in a PREMERA-wide postretirement benefit plan, which provides certain healthcare benefits for eligible retired employees. Substantially all employees may become eligible for these benefits upon reaching retirement age while working for the Company. The costs of these benefits are shared by the Company and the retiree.

STATUTORY DEPOSIT

As a life and health insurer, the Company is not normally required to hold a statutory deposit. However, as of the date of the examination, the Company maintained a deposit with the Oregon Insurance Division, Department of Consumer Business Services, in a US Treasury Note totaling \$1,000,000 (par value). The deposit was verified from the records of the Insurance Division. The stated purpose for the deposit is to comply with Idaho Insurance Code Section 41-316(2)(a)(i).

TERRITORY AND PLAN OF OPERATION

The Company conducts business in Oregon and is also licensed in Idaho. It issues accident and health, dental, vision and Medicare supplement insurance policies, offering these products to both groups and individuals. These coverages provide protection, after a deductible, at a usual and customary rate for covered indemnity services, or at a negotiated rate for covered preferred provider services. The Company markets and services its products

through its home office in Portland, and branch offices located in Bend and Eugene, Oregon. Business is written through a combination of licensed, independent agents and salaried representatives.

At December 31, 2007, Premera Blue Cross and its subsidiaries had approximately 3,200 full-time equivalent employees, providing insurance and related health services to over 1.7 million members in Washington, Alaska, Arizona and Oregon. In Oregon the Company reported approximately 117,000 members and 280 employees or associates.

GROWTH OF THE COMPANY

The growth of the Company over the last five years is reflected in the following schedule. The 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.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Income/ (Loss)</u>
2003 *	\$127,509,261	\$ 68,609,237	\$58,900,024	\$16,827,490
2004	168,302,666	107,684,171	60,618,495	11,704,738
2005	131,877,801	69,088,559	62,789,242	11,869,831
2006	133,946,611	59,023,796	74,922,815	12,017,634
2007 *	126,815,707	56,893,214	69,922,493	(5,273,580)

*Per examination

An analysis of the capital and surplus account in each of the annual statements filed during the period under examination showed surplus increased in three of the four years of the examination period, due primarily to net income from operations.

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>	(1) <u>Total Revenues</u>	(2) <u>Total Hospital and Medical</u>	(3) <u>CAE and General Expenses</u>	(2)+(3)/(1) <u>Combined Loss Ratio</u>
2003 *	\$348,021,898	\$277,735,584	\$55,767,054	95.8%
2004	387,294,978	317,920,771	60,242,179	97.6%
2005	371,288,053	300,676,482	56,956,070	96.3%
2006	324,831,435	253,881,629	58,379,239	96.1%
2007 *	320,177,710	282,162,455	51,416,993	104.2%

*Per examination

A combined loss incurred and expense to premium ratio of more than 100% indicates an underwriting loss. The Company reported underwriting gains in four of the last five years, but recorded a \$14,099,234 loss from operations during 2007.

REINSURANCE

Assumed Business

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

Ceded Business

Beginning January 1, 2004, and renewed annually, the Company's reinsurance program was comprised of a Medical Excess of Loss Reinsurance Agreement with BCS Life Insurance Company (NAIC #80985) covering commercial business. Under terms of the most recent agreement, the reinsurer reimburses the Company for losses per member up to \$4,350,000 for each individual risk, after a \$650,000 retention. Each covered employee and each covered dependent shall be considered a separate risk for purposes of determining limits and

retention. It was determined the Plan's reinsurance agreements clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

Risk Retention

In view of the Company's reported surplus of \$69,922,493 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 following issue was noted as a result of this examination:

Contracts Subject to Redetermination

The Company has one group contract subject to redetermination. The contract provides that the net profit or loss on the contract shall be calculated by subtracting claims, administrative costs and a margin for profit from premiums. The balance is to be split between the Company and the policyholder. The profit or loss is subtracted from or added to the pure policy premium of the following contract year. SSAP No. 54, paragraph 29 states: "Premium adjustments for contracts subject to redetermination are estimated for the portion of the

policy period that has expired and shall be considered an immediate adjustment to premium. Accrued premium adjustments shall be recorded as a write-in for other than invested assets, with a corresponding entry to premiums; accrued return premium adjustments shall be recorded as a liability with a corresponding entry to premiums. **I recommend the Company record the profit or loss on contracts subject to redetermination as an adjustment to current year premium, as either a write-in asset or liability as appropriate, per SSAP No. 54, par. 29.**

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the six recommendations made in the 2003 report of examination. A follow-up report was prepared on September 29, 2006.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of LifeWise Health Plan of Oregon, Inc., as of December 31, 2007:

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

**LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
STATEMENT OF ASSETS
As of December 31, 2007**

	BALANCE PER COMPANY	EXAM ADJUSTMENT	BALANCE PER EXAM	NOTE
Assets				
Bonds	\$ 115,649,226	\$0	\$115,649,226	1
Cash and short-term investments	3,975,362	-	3,975,362	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	\$ 119,624,588	\$ -	\$119,624,588	
Investment income due and accrued	1,022,310	-	1,022,310	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	2,150,384	-	2,150,384	
Reinsurance:				
Amounts recoverable from reinsurers	176,207	-	176,207	
Current federal income tax recoverable	299,427	-	299,427	
Net deferred tax asset	1,821,678		1,821,678	
Receivables from parent, subsidiaries, and affiliates	578,149	-	578,149	
Health care and other amounts receivable	1,067,963		1,067,963	
Aggregate write-ins for other than invested assets	<u>75,001</u>	<u>-</u>	<u>75,001</u>	
Total Assets	<u>\$ 126,815,707</u>	<u>\$ -</u>	<u>\$ 126,815,707</u>	

LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2007

	BALANCE PER COMPANY	EXAM ADJUSTMENT	BALANCE PER EXAM	NOTE
Liabilities, Capital and Surplus				
Claims unpaid	\$ 38,067,868		\$ 38,067,868	2
Accrued medical incentive pool and bonuses	102		102	2
Unpaid claims adjustment expense	2,082,918		2,082,918	2
Aggregate health policy reserves	697,496		697,496	2
Premiums received in advance	9,939,598		9,939,598	
General expenses due or accrued	1,801,886		1,801,886	
Ceded reinsurance premiums payable	136,306		136,306	
Amounts withheld or retained for account of others	3,201		3,201	
Remittances and items not allocated	365,241		365,241	
Amounts due to parent, subsidiaries, and affiliates	2,501,711		2,501,711	
Payable for securities	863,405		863,405	
Aggregate write-ins for liabilities	433,482	-	433,482	
Total Liabilities	\$ 56,893,214	\$ -	\$ 56,893,214	
Aggregate write-ins for special surplus funds	-	-	-	
Common capital stock	2,002,050		2,002,050	
Gross paid in and contributed surplus	12,408,579		12,408,579	
Surplus notes	-	-	-	
Unassigned funds (surplus)	55,511,864		55,511,864	
Less treasury stock, at cost	-	-	-	
Total capital and surplus	69,922,493	-	69,922,493	
Total liabilities, capital and surplus	\$ 126,815,707	\$ -	\$ 126,815,707	

**LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2007**

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENT	BALANCE PER EXAM	NOTE
Net premium income	\$ 320,819,539	\$ -	\$ 320,819,539	
Fee-for-service	(641,829)	-	(641,829)	
Aggregate write-ins for other non-health care related revenue	-	-	-	
Total Revenues	320,177,710	-	320,177,710	
Hospital and Medical:				
Hospital/medical benefits	221,382,862	-	221,382,862	
Other professional services	-	-	-	
Outside referrals	-	-	-	
Emergency room and out-of-area	30,782,270	-	30,782,270	
Prescription drugs	29,786,529	-	29,786,529	
Aggregate write-ins for other hospital and medical	-	-	-	
Incentive pool, withhold adjustments and bonus amounts	1,680	-	1,680	
Subtotal:	281,953,341	-	281,953,341	
Less:				
Net reinsurance recoveries	(209,114)	-	(209,114)	
Total medical and hospital	282,162,455	-	282,162,455	
Non-health claims	-	-	-	
Claim adjustment expenses	19,138,304	-	19,138,304	
General administrative expenses	32,278,689	-	32,278,689	
Increase in reserves for life and accident and health contracts	697,496	-	697,496	
Total underwriting deductions	334,276,944	-	334,276,944	
Net underwriting gain or loss	(14,099,234)	-	(14,099,234)	
Net investment income earned	6,860,559	-	6,860,559	
Net realized capital gains or (losses)	(317,798)	-	(317,798)	
Net investment gains or (losses)	6,542,761	-	6,542,761	
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Aggregate write-ins for other income or expense	(80,412)	-	(80,412)	
Net income or (loss) before federal income taxes	(7,636,885)	-	(7,636,885)	
Federal and foreign income taxes incurred	(2,363,305)	-	(2,363,305)	
Net Income (loss)	\$ (5,273,580)	\$ -	\$ (5,273,580)	

**LIFEWISE HEALTH PLAN OF OREGON, INC.
DBA LIFEWISE HEALTH PLAN OF OREGON
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31, 2007**

	2007	2006	2005	2004
Capital and surplus, December 31, previous	\$ 74,922,815	\$ 62,789,242	\$ 60,618,495	\$ 58,900,024
Net income	(5,273,580)	12,017,634	11,869,831	11,704,738
Net unrealized capital gains (losses)	(581)	(32,552)	66,021	3,397
Change in net deferred income tax	322,778	775,755	(86,150)	105,388
Change in nonadmitted assets	(48,939)	(627,264)	(1,149,336)	(95,052)
Change in unauthorized reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	999,365	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	(999,365)	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Dividends to stockholders (cash)	-	-	-	(10,000,000)
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus (1)	-	-	(8,529,619)	-
Change in surplus as regards policyholders for the year	<u>(5,000,322)</u>	<u>12,133,573</u>	<u>2,170,747</u>	<u>1,718,471</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 69,922,493</u>	<u>\$ 74,922,815</u>	<u>\$ 62,789,242</u>	<u>\$ 60,618,495</u>

(1) LifeWise amended its intercompany tax sharing agreement in 2005, resulting in the aggregate write-in loss in surplus.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Investments

Most of the Company's long-term bond investments were in US government obligations, federal agency bonds, special revenue bonds, and corporate issues. The Company did have a significant exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2007, but the book carrying value of \$72.9 million comprised over 63% of the total long-term bond portfolio. An additional \$9.7 million was invested in banks and financial institutions. Cash and short-term deposits consisted of cash on deposit and a short-term Treasury bill money market fund. A comparison of the investments over the past five years is as follows:

Year	A Bonds	B Cash and Short-term	Ratio A/ Total Assets	Ratio B/ Total Assets
2003	\$116,003,520	\$5,019,183	91.0%	3.9%
2004	137,080,395	8,311,428	81.4%	4.9%
2005	118,992,996	3,712,341	90.2%	2.8%
2006	126,734,593	(2,088,627)	94.6%	(1.6)%
2007	114,874,776	3,975,362	91.1%	3.2%

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 \$17,754,260, representing 15% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the amount that must be invested in these types of assets pursuant to ORS 733.580.

Effective July 19, 2007, the Company entered into a custodial agreement with the Bank of New York Trust Company, NA. The agreement appears to contain all of the relevant protections described in OAR 836-027-0200(4)(1) through (1).

The Plan is party to a Securities Lending Agreement and Guaranty, updated July 19, 2007, with the Bank of New York (BNY). The Plan, its parent, and several affiliates agree to appoint BNY as agent to lend securities to third-party borrowers from time to time. At December 31, 2007, BNY reported six bonds with a total par value of \$11,420,000 were loaned to various borrowers, and that \$13,890,169 was held as collateral for the Plan. This agreement appears to contain all the relevant protections of OAR 836-027-0330 through 836-027-0360.

While the Plan disclosed the existence of the Agreement in Note No. 20 of the Notes to Financial Statement, it did not note the amount of collateral held on behalf of the Plan, it did not describe the par value of bonds loaned in General Interrogatory No. 23, nor did it identify the specific bonds on Schedule D – Part 1 – Section 1 as required by the NAIC Annual Statement Instructions for Health manual. **I recommend the Plan properly disclose bonds held under the securities lending agreement in all future filings with the Oregon**

Insurance Division, pursuant to the NAIC Annual Statement Instructions for Health manual.

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 Thomas Nightingale, FSA, MAAA, of Milliman, Inc., Consultants and Actuaries, of Seattle, Washington (Atlanta, Georgia office) for December 31, 2007. I have also reviewed other documentation, spreadsheets, and verbal information provided by the Company, our examiners, and Mr. Nightingale. 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	\$37,656,178	\$38,067,868
Accrued Medical Incentive Pool and Withhold Amounts	102	102
Unpaid Claim Adjustment Expense	2,067,439	2,082,918
Aggregate Health Policy Reserves	<u>697,496</u>	<u>697,496</u>
Total Actuarial Liabilities	<u>\$40,421,214</u>	<u>\$40,848,384</u>

My total estimate for actuarial liabilities of \$40,421,214 is less than the Company's estimate by \$427,170. Therefore, the statement of the actuarial liabilities at year-end for the annual statement was appropriate and adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were three comments or recommendations made as a result of this examination, as follows:

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- 8 I recommend the Board develop a procedure to formally approve all compensation of its officers, to comply with the provisions of ORS 732.320(3).
- 18 I recommend the Company record the profit or loss on contracts subject to redetermination as an adjustment to current year premium, as either a write-in asset or liability as appropriate, per SSAP No. 54, par. 29.

24 I recommend the Plan properly disclose bonds held under the securities lending agreement in all future filings with the Oregon Insurance Division, pursuant to the NAIC Annual Statement Instructions for Health manual.

CONCLUSION

During the four-year period covered by this examination, the surplus of the Company has increased from \$58,900,024, as presented in the December 31, 2003, report of examination to \$69,922,493, as shown in this report of examination. The comparative assets and liabilities are shown below:

	December 31,		
	<u>2007</u>	<u>2003</u>	<u>Change</u>
Assets	\$126,815,707	\$127,509,261	\$ (693,554)
Liabilities	<u>56,893,214</u>	<u>68,609,237</u>	<u>11,716,023</u>
Surplus	<u>\$ 69,922,493</u>	<u>\$ 58,900,024</u>	<u>\$11,022,469</u>

SUBSEQUENT EVENTS

In February 2009, the Company made an announcement to its associates regarding an affiliate, LifeWise Health Plan of Arizona. The affiliate will cease writing new group and individual business in an Arizona. Current members will have the option to renew coverage with Blue Cross Blue Shield of Arizona, which is not affiliated with Premera. Local brokers will receive information to help them assist their customers in the transition. At December 31, 2008, LifeWise Health Plan of Arizona reported 17,269 enrollees in Arizona. There were no enrollees within the State of Oregon.

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, Raymond W. Anderson, AFE, Timothy Hurley, CFE, and Michael P. Phillips, CPA, CFE, AES, insurance examiners, also Scott L. Fitzpatrick, FSA, MAAA, life and health actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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 LifeWise Health Plan of Oregon, Inc., dba LifeWise Health Plan of Oregon.

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 LifeWise Health Plan of Oregon, Inc., dba LifeWise Health Plan of Oregon 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 _____, 2009.

Notary Public for the State of Oregon

My Commission Expires: _____