



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
SALEM, OREGON**

NAIC COMPANY CODE 12527

AS OF

DECEMBER 31, 2008

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SALUTATION

July 14, 2009

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

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
245 Commercial Street SE, Suite 200
Salem, Oregon 97301

hereinafter referred to as the "Trust." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

We examined the Trust's financial statements as of December 31, 2008. This examination covers the three-year period then ended. Material transactions or events 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. This examination determined the Company's financial condition, ability to fulfill and the manner in which it fulfills 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. Assets, liabilities, income and expense related items were tested. Corrective actions taken by the Trust in response to comments and recommendations in its December 31, 2005, report of examination were reviewed.

Scott F. Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, evaluated claims unpaid, unpaid claim adjustment expenses and aggregate health policy reserves for this report. His conclusions are included in the notes to the financial statements section of this report.

HISTORY OF THE TRUST

The Trust was formed on November 1, 2004, as an employees' beneficiary association under the provisions of Section 3(4) of the Employee Retirement Income Security Act of 1974 (ERISA). In 1993, the Oregon State Legislature enacted statutes regulating Multiple Employer Welfare Arrangements. Subsequently, the Trust applied for, and received, its Certificate of Multiple Employer Welfare Arrangement on April 25, 2005, to conduct

business as a Trust Multiple Employer Welfare Arrangement in accordance with ORS 750.303(2) and (3).

CAPITALIZATION

The capitalization requirements of the Trust are defined by ORS 750.309(3) which requires the Trust to maintain capital and surplus of not less than \$250,000 or an amount equal to 35% of incurred claims for the preceding 12 month period, whichever is greater. However, the required amount shall not exceed \$500,000. As of December 31, 2008, the Trust was in compliance as it reported surplus of \$792,206.

MANAGEMENT AND CONTROL

Trustor

The trust agreement designates Mid-Valley Independent Physicians Association, Inc. (MVIPA), an Oregon non-profit, taxable mutual benefit corporation, as the Trustor. MVIPA is an independent physician association made up of over 480 physician employers that reside and practice in Marion and Polk Counties. It has been representing physicians in the north Willamette Valley since 1991.

Trustees

The Board of Trustees, as identified in the Mid-Valley IPA Employee Benefit Trust Agreement (the Trust Agreement), is designated by the Sponsor as the administrator of the Plan and Trust. So long as the Board of Trustees serves as the administrator, the Board shall appoint an individual who shall serve at its pleasure as the “plan executive administrator” who shall have the authority to act on behalf of the Board as administrator, and who shall receive communications from plan participants, beneficiaries, their representatives and others who have a need to contact the plan administrator. The Trustee shall consist of a Board of Trustees appointed by those “employer members” of the Sponsor that are participants in the

Plan. The number of members on the Board shall be at least five but no more than nine persons. The Board members shall be nominated and appointed by majority vote of the participating employers. In order to participate on the Board, an individual must be an officer, director and/or owner of a participating employer.

ORS 750.317 requires that at least 50% of the trustees to be persons who are covered under the multiple employer welfare arrangement. A trustee may not be an owner, officer or employee of a third party administrator who is licensed pursuant to ORS 744.700 to 744.740 and provides services to a multiple employer welfare arrangement. The Trust is in compliance with this statute. Appointed trustees serving at December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Affiliation</u>	<u>Trustee Since</u>
Adam Solomon, MD Salem, OR 97306	Partner The Doctor's Clinic	2005
Loring H. Winthrop, MD Salem, OR 97303	Physician Salem Clinic	2005
Bruce C. Johnson, MD Salem, OR 97302	Medical Surgery Willamette Ear, Nose, Throat and Facial Plastic Surgery	2005
Michael D. Buck, MD Salem, OR 97301	Gastroenterologist	2005
Earl J. VanVolkinburg, MD Salem, OR 97301	Internal Medicine	2005
James K. Lace, MD Salem, OR 97301	Pediatrics Childhood Health Associates of Salem	2005
Steven C. Tackett-Nelson, MD Salem, OR 97302	Psychiatrist Salem Psychiatric Associates	2005

Officers

Officers appointed by the trustees and serving at December 31, 2008, were as follows:

<u>Name</u>	<u>Title</u>
Jan L. Buffa	Plan Administrator
Dean G. Andretta	Fiscal Officer

Administrative Services Agreement

The Trust is party to an administrative services agreement with MVIPA. The terms of the agreement provide for MVIPA to be responsible for performing certain services with respect to the operations of the Trust and to provide physical space as is reasonably necessary for the Trust to perform its functions. These services include: claims processing, underwriting, record maintenance, premium collection, and all services necessary to comply with applicable laws and to properly administer the benefits provided by the Trust. In consideration of the services performed, the Trust remits to MVIPA an administrative fee of \$27 per month per subscriber.

Concurrently, MVIPA is party to an administrative services agreement with Performance Health Technology, Inc., dba Performance Health Administrators (PHTech). PHTech is a third party administrator licensed in Oregon (License #812382) and provides administration, payment and reviews for the claims submitted on behalf of the subscribers to the Trust, including the related records maintenance and reporting. For these services, MVIPA remits to PHTech an administrative fee of \$27 per month per subscriber, in addition to ancillary fees and out of pocket expenses.

CONFLICT OF INTEREST

The Trust has an established policy requiring disclosure of any material interest or affiliation on the part of its directors, officers, and key personnel which may conflict with official duties. Each individual is required to read a Conflict of Interest Policy statement, and prepare a Conflict of Interest Disclosure Statement. All the trustees, with the exception of Loring Winthrop, MD, completed Conflict of Interest statements. **I recommend each trustee annually complete a Conflict of Interest statement.**

TRUST RECORDS

The Trust does not have Articles of Incorporation or Bylaws. Instead, its Trust Agreement defines its purpose and sets forth the rights and responsibilities of its trustees, employers, employees, and beneficiaries with respect to the MEWA. No amendments were made to the trust agreement during the period under review.

Trust Minutes

The Trustees conduct monthly meetings to discuss medical management and reinsurance coverages and compare financial statements to budgets and other matters relating to the Trust. A review of the trustee minutes revealed the minutes adequately supported the activities of the Trust in sufficient detail. A quorum, defined in the trust agreement as a majority of the Trustees, was present at all meetings. Investments were approved annually.

FIDELITY BONDS AND OTHER INSURANCE

MVIPA maintains insurance coverages through its insurance policies whereby the Trust is a named insured. The examination of insurance coverages involved a review of adequacy of limits and retentions, the authority to write in the State of Oregon, and the solvency of the insurers providing the coverages. At December 31, 2008, MVIPA was insured up to \$2,000,000 per occurrence, after a \$50,000 deductible, against losses from errors and

omissions. This meets the NAIC suggested minimum level of fidelity bond coverage for the size and volume of its operation.

In addition, MVIPA has directors and officers liability coverage for \$2,000,000, after a \$50,000 deductible. Other insurance coverages in force at December 31, 2008, were as follows:

Commercial Excess and Umbrella Insurance
Property Liability

PENSION PLANS

The Trust has no employees. Therefore, no liability for employee benefits was accrued.

TERRITORY AND PLAN OF OPERATION

The Trust provides medical health care, pharmaceutical, dental, and vision benefits to the Mid-Valley Independent Physician Association members' eligible employees and their dependents.

GROWTH OF THE COMPANY

The Trust's growth since the last financial examination is shown in the following table. Amounts were derived from the Trust's annual statements, except in those years in which a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income</u>
2005*	\$1,237,194	\$ 688,734	\$517,870	\$(459,856)
2006	1,440,182	631,486	808,696	(169,763)
2007	1,770,989	940,939	830,050	(329,646)
2008*	1,852,445	1,060,239	792,206	(937,843)

*Per examination

The Trust was able to remain solvent in spite of losses through capital contributions each year as follows:

Capital Changes:

<u>Year</u>	<u>Paid in Capital Contributions</u>
2005	\$200,000
2006	\$430,000
2007	\$350,000
2008	\$900,000

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Trust since the last examination. The amounts were compiled from the Trust's filed annual statements, except for those years when the amounts were reflected in reports of examination.

Year	Net Premium Income	Total Hospital and Medical	CAE and General Expenses	Combined Ratio
2005*	\$2,308,351	\$2,375,415	\$414,727	120.9%
2006	4,695,221	4,408,718	500,203	104.6%
2007	5,891,869	5,553,304	731,255	106.7%
2008	7,157,220	7,302,441	836,985	112.2%

*Per examination

A combined hospital and medical and claims adjustment and general expense to premium income ratio of more than 100% indicates an underwriting loss. The Trust reported an underwriting loss in each of the last four years. The Trust reported an underwriting loss of \$937,843 as of December 31, 2008.

REINSURANCE

Employers Fire Insurance Company of Boston MA. reinsures the Trust through a stop-loss insurance policy. Medical and prescription drug claims are covered up to a maximum of \$1,000,000 per claim, after \$75,000 retention. The policy has a lifetime limit of liability per covered person of \$2,000,000.

Employers Fire Insurance Company is an admitted carrier in Oregon since 1922, which is authorized to write property, casualty, workers' compensation, marine, transportation and health insurance.

The reinsurance agreement's insolvency clause does not provide for a cut through. This provision along with a Conformity with State Statutes clause amend the agreement to conform with minimum requirements of state statutes in the Trust's home state, bringing the insolvency clause into compliance with ORS 731.508 (3).

ACCOUNTS AND RECORDS

The records and source documentation supported the amounts presented in the Trust's December 31, 2005, annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170. The Trust maintains its general ledger, premium records, and claims records on a computerized system. However, the following issues were noted during the examination:

Special Deposits on Schedule E, Part 3, Special Deposits

The Trust had two US Treasury Notes on deposit in a Custodial Account at US Bank, which satisfied the requirements of ORS 733.580. These securities were reported on Schedule E, Part 1 - Cash. However, NAIC Health Annual Statement Instructions require deposits held by the State to also be reported on Schedule E, Part 3 - Special Deposits. **I recommend the Trust report Special Deposits held in Custodial Accounts on Schedule E, Part 3 - Special Deposits in compliance with the NAIC Health Annual Statement Instructions and ORS 731.302.**

Health Care Receivables

NAIC Health Annual Statement Instructions for Exhibit 3-Health Care Receivables state "Individually list the greater of any account balances greater than \$10,000 or those that are 10% of gross health care receivables."

Though some health care receivables exceeded 10% of the gross health care receivables, they were not listed individually.

I recommend the Trust individually list the greater of any account balances greater than \$10,000 or those that are 10% of gross health care receivables, as well as correctly categorize the health care receivables by line number on Exhibit 3 - Health Care Receivables. This complies with ORS 731.302 and the NAIC Health Annual Statement Instructions.

Claim Overpayment Estimates

The Trust included \$34,977 for claims refunds receivables in the \$77,128 health care receivables. These claims refunds receivables were an estimate based upon IBNR and not specific identifiable payments as required by SSAP 84 paragraph 14. Subsequent receipts showed the health care receivables were collectible. **I recommend the Trust only book specifically identifiable claim overpayment receivables rather than estimates in compliance with ORS 731.302 and SSAP 84.**

Pharmaceutical Rebate Receivables-Disclosure

SSAP 84, paragraph 24, requires financial statements to disclose the method used by the reporting entity to estimate pharmaceutical rebate receivables. Furthermore, for the most recent three years and for each quarter therein, the reporting entity shall also disclose the following:

- a. Estimated balance of pharmacy rebate receivable as reported on the financial statements;
- b. Pharmacy rebates as invoiced or confirmed in writing; and
- c. Pharmacy rebates collected.

The Trust's disclosures in Notes to Financial Statements did not meet the requirements of SSAP No. 84, paragraph 24. In addition I recommend the Trust follow the example in Exhibit A to SSAP No. 84 to disclose Pharmaceutical Rebate Receivables in Notes to Financial Statements.

I recommend the Trust properly disclose pharmacy rebates receivable in Notes to Financial Statements as stated in SSAP No. 84, paragraph 24 and disclose Pharmaceutical Rebate Receivables as shown in Exhibit A to SSAP No. 84 to comply with ORS 731.302 and SSAP 84.

COMPLIANCE WITH PRIOR EXAM RECOMMENDATIONS

The only examination recommendation contained in the previous examination report was that the Trust approve investments during its Directors meetings. The Trust complied with this recommendation in 2007 and 2008.

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
BALANCE SHEET
As of December 31, 2008

<u>ASSETS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$ 0	\$ 0	\$ 0
Cash (Note 1)	1,045,805		1,045,805
Reinsurance recoverable	329,512		329,512
Receivable from parent	400,000	0	400,000
Health care receivable	<u>77,128</u>	<u>0</u>	<u>77,128</u>
Total assets	<u>\$1,852,445</u>	<u>\$ 0</u>	<u>\$1,852,445</u>
<u>LIABILITIES, CAPITAL AND SURPLUS</u>			
Claims unpaid	\$1,010,824	\$ 0	\$1,010,824
Unpaid claims adjustment expenses	32,356		32,356
Premiums received in advance	12,346		12,346
General expenses due or accrued	<u>4,713</u>	<u>0</u>	<u>4,713</u>
Total liabilities	<u>1,060,239</u>	<u>0</u>	<u>1,060,239</u>
Gross paid in and contributed surplus	2,688,316		2,688,316
Unassigned funds	<u>(1,896,110)</u>	<u>0</u>	<u>(1,896,110)</u>
Total capital and surplus	<u>792,206</u>	<u>0</u>	<u>792,206</u>
Total liabilities capital and surplus	<u>\$1,852,445</u>	<u>0</u>	<u>\$1,852,445</u>

MID-VALLEY IPA EMPLOYEE BENEFIT TRUST
INCOME STATEMENT
As of December 31, 2008

Net premium income	<u>\$7,157,220</u>
Total revenue	<u>7,157,220</u>
Hospital and Medical:	
Hospital/medical benefits	5,861,781
Prescription drugs	<u>1,118,626</u>
Subtotal	6,980,407
Less:	
Net reinsurance recoveries (less)	<u>(322,034)</u>
Total hospital and medical	7,302,441
Non-health claims (net) (less)	0
Claims adjustment expenses	470,944
General administrative expenses (less)	<u>356,041</u>
Total underwriting deductions	<u>8,129,426</u>
Net underwriting gain (loss)	<u>(972,206)</u>
Net investment income earned	34,363
Net realized capital gains or (losses) less capital gains tax	<u>0</u>
Net investment gains or (losses)	<u>34,363</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	(937,843)
Federal income tax incurred	<u>0</u>
Net income (loss)	<u><u>\$(937,843)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus December 31, 2007	<u>\$ 830,050</u>
Net income or (loss)	(937,843)
Paid in (capital changes)	<u>900,000</u>
Net change in capital and surplus	<u>(37,843)</u>
Capital and surplus December 31, 2008	<u><u>\$ 792,207</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Cash

Included in the Cash as of 12/31/2008 are 2 US Treasury notes totaling \$828,000, which are held on deposit in the US Bank Custodial account. These Treasury notes are in amply secured obligations of the United States or FDIC insured cash deposits, which exceed the required capitalization amount required by ORS 750.309(3).

Note 2 – Reserves for Claims Unpaid and Unpaid Claims Adjustment Expenses

Scott F. Fitzpatrick, FSA, MAAA, actuary with the Oregon Insurance Division reviewed the Plan's unpaid claims liability as of December 31, 2008. Based on the Trust's claims runoff data, he concluded that the December 31, 2008, liability for unpaid claims was adequate. The examiners tested the underlying claims data supporting the review. No exceptions were noted during the examination of the Trust's claims data.

SUBSEQUENT EVENT

Subsequent to the December 31, 2008, effective date of this examination and prior to the publication of this report of examination, the Trust submitted to the Oregon Insurance Division a quarterly statement as of June 30, 2009, that reflected a net loss for the six months then ending totaling \$203,494. The statement also reflected capital paid in totaling \$200,000. Capital and surplus reflected by the Trust as of June 30, 2009, totaled \$788,713.

CONCLUSION

During the period of this examination, the surplus of the Trust increased from \$548,460 at December 31, 2005, to \$792,207 as of December 31, 2008. The comparative assets and liabilities as reflected below:

	<u>2008</u>	<u>December 31,</u> <u>2005</u>	<u>Change</u>
Assets	\$1,852,445	\$1,206,604	\$645,841
Liabilities	<u>1,060,239</u>	<u>688,734</u>	<u>371,505</u>
Surplus	<u>\$ 792,206</u>	<u>\$ 517,870</u>	<u>\$274,336</u>

COMMENTS AND RECOMMENDATIONS

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

Page

- 8 I recommend each trustee annually complete a conflict of interest statement.
- 11 I recommend the Trust report Special Deposits held in Custodial Accounts on Schedule E, Part 3 - Special Deposits in compliance with the NAIC Health Annual Statement Instructions and ORS 731.302.
- 12 I recommend the Trust individually list the greater of any account balances greater than \$10,000 or those that are 10% of gross health care receivables as well as correctly categorize the health care receivables by line number on Exhibit 3 - Health Care Receivables. This complies with ORS 731.302 and the NAIC Health Annual Statement Instructions.
- 12 I recommend the Trust only book specifically identifiable claim overpayment receivables rather than estimates in compliance with ORS 731.302 and SSAP 84.
- 13 I recommend the Trust properly disclose pharmacy rebates receivable in Notes to Financial Statements as stated in SSAP No. 84, paragraph 24 and disclose pharmaceutical rebate receivables as shown in Exhibit A to SSAP No. 84 to comply with ORS 731.302 and SSAP 84.

ACKNOWLEDGMENT

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

In addition to the undersigned, Ellen F. Quale, CPA, AFE financial examiner, and Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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

