



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**ODS HEALTH PLAN, INC.
PORTLAND, OREGON**

NAIC COMPANY CODE 47098

AS OF

DECEMBER 31, 2009

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SALUTATION

October 8, 2010

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

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner and Director:

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

**ODS HEALTH PLAN, INC.
601 SW Second Avenue
Portland, Oregon 97204**

NAIC Company Code 47098

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

SCOPE OF EXAMINATION

The full scope single-state examination of the Company was conducted as of December 31, 2009, 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.

We conducted our examination pursuant to ORS 731.300 and in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instruction when applicable to domestic state regulations.

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

David Dillon, FSA, MAAA, of the firm Lewis & Ellis, participated in this examination by evaluating claims unpaid and unpaid claim adjustment expenses, as well as other items requiring actuarial expertise. The results of his analysis are found under the relevant section of this report.

Concurrent with this examination, two insurance affiliates of the Company, Oregon Dental Service and Dentists Benefits Insurance Company, were also examined as of December 31, 2009. There was a separate report of financial examination made for each company.

COMPANY HISTORY

The Company was incorporated in 1988 under the laws of the Oregon Insurance Code as a for-profit life and health insurer under ORS Chapter 732. The Company received its Certificate of Authority as a domestic life and health insurer on December 28, 1988. In 1992, the Company sought to amend its Certificate of Authority to become a property & casualty insurer. An amended Certificate of Authority was granted on January 5, 1993. Effective January 1, 1992, the Oregon Dental Association (ODA) contributed 100% of the capital stock of the Company to Health Services Group (HSG), the current direct parent.

On June 22, 1999, HSG formed and incorporated a new subsidiary named ODSHP Acquisition Sub, Inc., under the laws of the State of Oregon. The Oregon Secretary of State Corporation Division registered this company as a domestic business corporation. The Company was merged with and into this corporation, and a new Certificate of Authority was granted on October 8, 1999, as a health care service contractor under ORS Chapter 750. On October 19, 1999, ODSHP Acquisition Sub changed its name to its current company name.

On November 27, 2000, the Insurance Division approved a corporate reorganization in which ODA, the ultimate controlling entity of the Company and sole shareholder of HSG, donated all of its outstanding HSG stock to Oregon Dental Service. As a result, HSG and all of its subsidiaries became a direct or indirect subsidiary of Oregon Dental Service.

Dividends, Distributions and Contributions

During the period examined, the Company paid no ordinary or extraordinary dividends to its parent. It did, however, receive capital contributions from its direct parent, HSG, as follows:

<u>Year</u>	<u>Contribution</u>
2007	\$0
2008	\$10,000,000
2009*	\$12,703,458

*Per examination

The \$10 million contribution was reported as a cash contribution in the 2008 Annual Statement Notes the Financial Statement. The 2009 contribution was in the form of two subsidiary investments; approximately \$2.8 million in the cost basis of the common stock of ODS Plaza, Inc., and \$9.9 million in the cost basis of ODS Bend Property LLC. The Company made the proper disclosure of the contributions to the director of the Department of Consumer and Business Services in accordance with the reporting requirements established by ORS 732.552.

Surplus Notes

On November 13, 2009, the Board authorized the issuance of two subordinated surplus notes. On December 31, 2009, the Oregon Insurance Division authorized the Company to issue a \$5,000,000 surplus note to MedImpact Health Care Systems, Inc., and an \$18,000,000 surplus note to OEA Choice Welfare Benefit Trust. Both have a stated interest rate of 6% per annum and a maturity date of June 30, 2012.

CORPORATE RECORDS

Board Minutes

In general, the review of 2007 to 2009 Board meeting minutes of the Company, as well as the various committees authorized by the Board, 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. The Board maintained a quarterly meeting schedule.

The finance committee approved investments at each meeting and monitored the investment guidelines as needed, which was then approved by the Board as a whole, in accordance with ORS 733.730. The Board's compensation/governance committee approved officer salaries. The Company's Board then approved the committee's actions pursuant to ORS 732.320(3).

Articles of Incorporation

No changes were made during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance code.

Bylaws

The Company's Bylaws were amended two times during the period under examination. First, on January 2, 2008, the Board amended Article 3, section 3.2 to establish the number of directors from sixteen (16) to any number between thirteen (13) and sixteen (16) and changing the number of directors in class (i) and class (ii) to correspond to the total number of directors; also, amended Article 3, section 3.2, subsection 2, to increase each directors' term from three years to four years, staggering the board from three groups into four groups. And second, on March 7, 2008, the Board amended Article 3, section 3.13, subsection 1, to change the way the Board may fill vacancies, including those created by increasing the size of the board. The Bylaws conformed to Oregon statutes.

Parent, Subsidiaries and Affiliated Companies

The Company filed an insurance holding company registration statement on behalf of itself and its insurance subsidiaries in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020. The insurance holding company structure is comprised of the following entities:

Oregon Dental Association (ODA) is an Oregon nonprofit professional association formed in 1949. It is one of the five constituent dental societies that comprise the American Dental Association's Eleventh Trustee District. Members of the ODA are made up of licensed dentists in the State of Oregon. The Board of Trustees of the ODA appoints all but one director to the Company's Board of Directors, and would be considered the ultimate controlling entity.

Oregon Dental Service (ODS) is an Oregon nonprofit mutual benefit corporation formed in 1961 by the ODA. ODS writes dental insurance as a health care service contractor in Oregon and Alaska.

Health Services Group (HSG) is an Oregon for-profit stock corporation owned 100% by ODS and was formed in 1991 as a management company. It maintains all employees, facilities and operations used by the Company under a management agreement described below.

Dentists Management Corporation (DMC) is a wholly owned subsidiary of HSG whose primary function is to market a dental practice management system known as DAISY.

Dentists Benefits Corporation (DBC) is an insurance agency wholly owned by HSG. Its primary purpose is to market professional liability and other property and casualty coverages to Oregon dentists. DBC provides marketing services for DBIC and NORDIC.

Northwest Dentists Insurance Company (NORDIC) is a Washington domiciled property and casualty insurer owned 75% by HSG and 25% by the Washington State Dental Association. HSG purchased its ownership of NORDIC in February 2007. It writes property/general liability and professional liability coverages primarily in Washington and Idaho.

The Company owns several subsidiaries, as follows:

Dentists Benefits Insurance Company (DBIC) is a wholly owned subsidiary of ODSHP. DBIC was issued a Certificate of Authority from the Oregon Insurance Division as a property and casualty insurer. DBIC markets professional liability and commercial multi-peril coverages through DBC to dentists in eight states. DBIC commenced business in 1985.

ODS Plaza, Inc. is an Oregon business corporation wholly owned by ODSHP. This company was formed in 2005 to own and operate an office building located in Milwaukie, Oregon. This subsidiary was transferred to ODSHP from HSG on December 31, 2009.

BenefitHelp Solutions (fka BestChoice Administrators) is a third party administrator wholly owned by ODSHP. BestChoice Administrators was incorporated on January 24, 1994. The new name was adopted July 13, 2005.

ODS Community Health, Inc. (OCH) was incorporated in December 2003 for the purpose of handling business of the Oregon Health Plan, through the Division of Medical Assistance Programs (DMAP), and is a wholly owned subsidiary of ODSHP.

ODS Bend Property LLC is an Oregon limited liability corporation wholly owned by ODSHP. This company was formed in 2007 to be a management company for an office building located in Bend, Oregon. The LLC owns approximately 74% of the office building. This subsidiary was transferred to ODSHP from HSG on December 31, 2009.

Statutory Deposit

At year-end 2009, the Company maintained two US T-Bills as deposits with the Oregon Insurance Division in the sum of \$1,268,000 (par value), for the benefit of all policyholders pursuant to the provisions of ORS 750.045(2). The deposits were verified from the records of the Insurance Division. In addition, the Company maintained a US Treasury Note with a par value of \$153,000 on deposit with the State of Washington, Office of the Insurance Commissioner. All deposits were listed in the 2009 annual statement on Schedule E – Part 3.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Company in a Board of Directors of between 13 and 16 members, consisting of (i) not more than nine nor less than seven persons who are members in good standing of the ODA (ii) not more than six nor less than five persons, each of whom is neither an ODA member nor a practicing dentist, and (iii) the chief executive officer of the Company. Directors serve terms of four years without limitation to the number of terms. All directors, with the exception of the chief executive officer of the Company, are appointed by the Company's shareholder. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 750.015.

Members of the Board of Directors, duly appointed and serving as of December 31, 2009, were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Appointed</u>
Karen E. Anderegg Portland, OR 97225	Consultant	2000
Tracy S. Andrus Eagle, ID 83616	Consultant	2003

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Appointed</u>
Wayne R. Barichello, DMD Oregon City, OR 97045	Dentist Barichello Family Dentistry	2005
Michael E. Biermann, DMD Portland, OR 97203	Pediatric Dentistry	2007
D. Jon Carnahan Salem, OR 97302	Consultant	1999
George J. Darke, DMD Vancouver, WA 98683	Retired Dentist	1998
Robert G. Gootee Portland, OR 97204	President & CEO Oregon Dental Service	1998
David W. Howerton, DMD** Salem, OR 97302	Associate Professor OHSU School of Dentistry	2004
Mark E. Jensen, DMD Bend, OR 97702	Dentist	2005
Jay C. Lamb, DMD* Eugene, OR 97401	Dentist	1991
Michael L. McKeel, DDS Gresham, OR 97030	Dentist	1996
Marta A. Monetti Portland, OR 97204	Sr. Vice President Edelman Public Relations	2007
Patrick M. Nearing, DMD La Grande, OR 97850	Dentist	2006
George J. Passadore Portland, OR 97225	President TriMet Board of Directors	2004
John C. Stevason Portland, OR 97204	Attorney Lane Powell PC	1999

* Chairman of the Board

** Vice Chairman of the Board

Officers

Operating management of the Company as of December 31, 2009, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Robert G. Gootee	President and Chief Executive Officer
Thomas J. Bikales	Director of Legal and Regulatory Affairs and Secretary
Jonathan L. Jurevic	Senior Vice President, CFO and Treasurer
David W. Evans	Vice President, Controller and Asst. Secretary

Mr. Jurevic resigned effective March 31, 2010, and was replaced by Steven Wynne. All other management functions are provided through a management agreement with HSG, as described below.

Intercompany Agreements

As of December 31, 2009, the Company was party to the following agreements with affiliates:

Management Agreement

The Company operates under a management agreement with HSG, dated January 1, 1995, and amended September 1, 2002. The management agreement states that HSG will provide all marketing, underwriting, claims, reinsurance, investment, financial and accounting, information systems and administrative functions to the Company. HSG will provide all equipment, computer software, furniture, fixtures and all tangible personal property used to transact business, as well as all employees and staff. Terms of the agreement include:

- the Company is to pay all costs and expenses that are directly attributable to its operations;
- indirect expenses are to be pooled and allocated using a fair and reasonable method; and
- those costs or expenses that inure to the sole benefit of HSG and do not benefit the Company shall be borne by HSG and shall not be subject to reimbursement.

It was noted the agreement did not specify a due date for payment, but stated HSG will invoice the Company from time to time (but not more frequently than monthly) and shall be paid by the Company within 15 business days of the date of the invoice. Sections 5.2 and 5.3 of the agreement allow HSG to hold all cash, by means of a sweep account, of the Company

and all its indirect subsidiaries. The Company uses zero balance accounts, with the balances being swept into the HSG concentration account on a daily basis. At this point, the funds become the property of HSG, and an intercompany receivable or payable is established, depending on the daily cash balance. Funds are swept back to the Company on an as needed basis, depending on its funding requirements. These funds are commingled and invested in investments held by HSG. All transactions are reconciled monthly, and balances held more than 90 days are paid interest equal to the 90-day US T-Bill rate as of the last business day of the month.

CONFLICT OF INTEREST

The Company has a conflict of interest policy that is stated in the ODS 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.

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 coverages. The Company is insured for up to \$7,500,000 per occurrence, after a \$100,000 deductible, against losses from acts of dishonesty and fraud by its employees. It was noted that this fidelity bond coverage exceeded the minimum coverage recommended by the NAIC. The Company's office buildings and personal property are covered by a commercial package policy that includes earthquake and flood coverage. The property coverage appeared adequate based on the examination of the office values. All other insurance coverages in force at December 31, 2009, were as follows:

Commercial general liability
Umbrella liability
Extortion

Business automobile
Managed care errors and omissions
Workers' compensation

The limits for the above coverages were found to be adequate as of December 31, 2009.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Employee Retirement Plans

The Company's direct parent, HSG, offers a 401k pension plan covering substantially all of its employees. Since the previous examination, the plan provided for HSG to contribute 8% of eligible employees' salaries and would match 2% of employees' contributions. Effective January 1, 2009, the plan was modified to make fixed contributions of 3% of eligible employees' salaries and match employee contributions up to 2%, 4% or 6% of their eligible earnings for years of service less than five years, between five and ten years, and more than ten years, respectively. The voluntary employee pre-tax contributions may range from 1% up to 70% of pay, not to exceed the following dollar amount:

<u>Year</u>	<u>Under Age 50</u>	<u>Age 50 or Over</u>
2007	\$15,500	\$20,500
2008	\$15,500	\$20,500
2009	\$16,500	\$22,000

Deferred Compensation Plans

The HSG deferred compensation plan is available to certain executives where they may defer a portion of their current income to be paid out upon retirement or other qualifying event. Participants in the plans have the position of unsecured creditors.

Also, HSG has adopted an annual bonus plan and a Supplemental Executive Retirement Account Plan (SERAP). The SERAP is a nonqualified defined benefit retirement plan to cover certain officers of HSG who have at least five or more years of service and meet

certain other eligibility requirements. Benefits are based on years of service and the employee's final average pay, defined by the plan.

TERRITORY AND PLAN OF OPERATION

In the previous report of examination, the Company was licensed in Alaska, Oregon and Washington. On January 24, 2007, the Company was issued a certificate of authority to write business in Idaho. Currently, the Company only writes business in Alaska and Oregon.

The Company offers medical insurance, comprised of indemnity, managed care, POS and PPO commercial plans both in the small- and large-group employer markets. It also offers Medicare and Medicare supplement coverage. Some of the commercial business is written on a retention basis whereby the Company agrees to refund the excess, if any, of premium received over claims and administrative costs paid. The experience refund is generally used as an offset against increases in a group's premiums, and comprised most of the liability account, amounts withheld or retained for the account of others. The Company writes its business through licensed, independent agents and salaried representatives.

The Company's fully insured medical business showed an increase, from 41,592 enrollees at 12/31/2006 to 67,900 enrollees at year-end 2009, with net premium income of \$144,355,823 and \$216,864,121, respectively.

In addition to insurance business, the Company offers two non-insurance comprehensive medical plans to employer groups. First, an Administrative Service Contracts (ASC) business for self-insured and partially insured groups provide for the collection of group's premiums and the processing of the group's claims, whereby the Company is paid a pre-determined management fee. The employer group retains all claim obligations, thus there is no insurance risk to the Company. Second, a Minimum Premium Plan (MPP) is a product

where the Company charges a group a minimum premium per person per month to cover the administrative costs of processing claims. The insured is responsible for the claim payments up to a maximum limit established by the contract. The Company covers claims incurred in excess of the maximum limit.

During the examination period, the Company has seen considerable increase in ASC and MPP enrollment. Non-insurance enrollment increased from 129,974 lives in 2006 to 209,882 lives at the end of 2009.

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.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Income/ (Loss)</u>
2005	\$132,335,450	\$ 95,724,975	\$36,610,475	\$ 4,912,905
2006*	139,832,273	102,933,564	36,898,709	5,118,594
2007	147,241,630	108,960,390	38,281,240	3,537,754
2008	178,792,925	138,946,781	39,846,144	1,328,536
2009*	231,701,035	160,287,858	71,413,177	(9,979,067)

*Per examination

The increase in admitted assets and liabilities during 2008 and 2009 was the primarily the result of a large minimum premium plan contract entered into beginning in October, 2008. In addition, the Company received capital infusions of \$10 million and \$12.7 million in 2008 and 2009, respectively. The Company issued \$23 million in subordinated surplus notes in 2009. Each of these transactions is described under Company History above.

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>
2005	\$134,003,649	\$114,617,365	\$15,516,881	97.1%
2006*	144,355,823	121,042,112	21,902,740	99.0%
2007	149,570,471	125,465,110	23,655,577	99.7%
2008	182,591,544	160,649,740	22,969,738	100.6%
2009*	216,864,121	219,027,326	18,059,919	109.3%

*Per examination

A combined loss incurred and expense to premium ratio of more than 100% indicates an underwriting loss, which this Company did report in 2008 and 2009. In addition, approximately 81% of the Company's premiums are in non-insurance Administrative Service Contracts (ASC) and Minimum Premium Plan (MPP) business, whereby the Company acts as a third-party administrator for self-insured and partially insured groups. The premiums and claims from this business are not included above, but the Company does collect a service fee which may offset a portion of the total expenses incurred on the insured business.

REINSURANCE

Assumed Business

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

Ceded Business

During the period under examination, the Company's reinsurance program was comprised of a medical excess reinsurance agreement with HCC Life Insurance Company (NAIC #92711)

and authorized in Oregon on June 14, 1982). Under the terms of the agreement, the reinsurer reimburses the Company for losses per member up to \$2,000,000 after retention of \$500,000. Lifetime benefit per member is \$2,000,000. It was determined the Company's reinsurance agreement clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

Effective October 1, 2008, the Company entered into an aggregate excess of loss reinsurance agreement with HCC Life Insurance Company and Platinum Underwriters Reinsurance, Inc. (NAIC #10357 and authorized in Oregon on May 29, 1997). This agreement covers the medical and prescription drug benefits under one specific MPP contract. The reinsurers agree to reimburse the Company for all losses in excess of: a) a fixed amount of claims per employee per month, b) a specified maximum amount of aggregate loss, or c) a specified gross loss ratio. The coverage is capped at \$20 million aggregate for the term of the contract.

Insolvency Clause

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

Risk Retention

The reinsurance agreement requires the Company to retain a maximum of \$500,000 per risk. In view of the Company's surplus of \$71,413,177 at December 31, 2009, the Company does not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders pursuant to the maximum risk retention set by 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, 2009, 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 and has filed the reports on abandon property pursuant to the provisions of ORS 98.352.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the five recommendations made in the 2006 report of examination. A follow-up report was prepared on September 25, 2009.

SUBSEQUENT EVENTS

There were no items subsequent to the examination date that would have a material impact on the information contained in this report.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of ODS Health Plan, Inc., as of December 31, 2009:

- Statement of Assets
- Statement of Liabilities, Capital and Surplus
- Statement of Revenues and Expenses
- Reconciliation of Surplus since the Last Examination

ODS HEALTH PLAN, INC.
STATEMENT OF ASSETS
As of December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
ASSETS				
Bonds	\$104,323,541	\$ -	\$104,323,541	1
Common stocks	33,123,704	-	33,123,704	1
Cash and short-term investments	16,523,768	-	16,523,768	1
Other invested assets	9,868,220	-	9,868,220	3
Receivable for securities	<u>7,245,816</u>	<u>-</u>	<u>7,245,816</u>	
Subtotal, cash and invested assets	<u>\$171,085,049</u>	<u>\$ -</u>	<u>\$171,085,049</u>	
Investment income due and accrued	570,332	-	570,332	
Premiums and considerations: Uncollected premiums and agent's balances in the course of collection	4,518,535	-	4,518,535	
Amounts recoverable from reinsurers	18,884,393	-	18,884,393	
Amounts receivable relating to uninsured plans	12,173,179	-	12,173,179	2
Current FIT recoverable	5,038,294	-	5,038,294	
Net deferred tax assets	362,290	-	362,290	
Receivables from parent, subsidiaries, and affiliates	17,980,548	-	17,980,548	
Health care receivable	848,094	-	848,094	
Aggregate write-ins for other than invested assets	<u>240,321</u>	<u>-</u>	<u>240,321</u>	
Total Assets	<u>\$231,701,035</u>	<u>\$ -</u>	<u>\$231,701,035</u>	

ODS HEALTH PLAN, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
LIABILITIES, CAPITAL AND SURPLUS				
Claims unpaid	\$ 21,200,000	\$ -	\$ 21,200,000	2
Accrued medical incentive pool and bonuses	-	-	-	2
Unpaid claims adjustment expense	1,060,000	-	1,060,000	2
Aggregate health policy reserves	11,597,576	-	11,597,576	2
Premiums received in advance	5,780,047	-	5,780,047	2
General expenses due or accrued	7,516,960	-	7,516,960	
Amounts withheld or retained for account of others	779,646	-	779,646	
Amounts due to parent, subsidiaries, and affiliates	2,462,006	-	2,462,006	
Payable for securities	311,164	-	311,164	
Liability for amount held under uninsured plans	109,308,326	-	109,308,326	2
Aggregate write-ins for liabilities	<u>272,133</u>	<u>-</u>	<u>272,133</u>	
Total Liabilities	<u>\$ 160,287,858</u>	<u>\$ -</u>	<u>\$ 160,287,858</u>	
Common capital stock	2,500,000	-	2,500,000	
Gross paid in and contributed surplus	47,934,899	-	47,934,899	
Surplus notes	23,000,000	-	23,000,000	
Unassigned funds (surplus)	<u>(2,021,722)</u>	<u>-</u>	<u>(2,021,722)</u>	
Total capital and surplus	<u>71,413,177</u>	<u>-</u>	<u>71,413,177</u>	
Total liabilities, capital and surplus	<u>\$ 231,701,035</u>	<u>\$ -</u>	<u>\$ 231,701,035</u>	

ODS HEALTH PLAN, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2009

	Balance per Company	Exam Adjustment	Balance per Exam	Note
Net premium income	\$ 216,864,121	\$ -	\$ 216,864,121	
Aggregate write-ins for other non-health care related revenue	<u>-</u>	<u>-</u>	<u>-</u>	
Total Revenues	<u>216,864,121</u>	<u>-</u>	<u>216,864,121</u>	
 Hospital and Medical:				
Hospital/medical benefits	194,761,215	-	194,761,215	
Other professional services	9,638,665	-	9,638,665	
Outside referrals	281,630	-	281,630	
Emergency room and out-of- area	13,730,014	-	13,730,014	
Prescription drugs	20,926,977	-	20,926,977	
Incentive pool, withhold adjustments and bonus amounts	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal:	239,338,501	-	239,338,501	
 Less:				
Net reinsurance recoveries	<u>20,311,175</u>	<u>-</u>	<u>20,311,175</u>	
Total medical and hospital	219,027,326	-	219,027,326	
Non-health claims	-	-	-	
Claim adjustment expenses	9,141,109	-	9,141,109	
General administrative expenses	8,918,810	-	8,918,810	
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>237,087,245</u>	<u>-</u>	<u>237,087,245</u>	
Net underwriting gain or loss	<u>(20,223,124)</u>	<u>-</u>	<u>(20,223,124)</u>	
Net investment income earned	3,972,978	-	3,972,978	
Net realized capital gains or (losses)	<u>871,444</u>	<u>-</u>	<u>871,444</u>	
Net investment gains or (losses)	4,844,422	-	4,844,422	
Aggregate write-ins for other income or expense	<u>(87,585)</u>	<u>-</u>	<u>(87,585)</u>	
Net income or (loss) before federal income taxes	(15,466,287)	-	(15,466,287)	
Federal and foreign income taxes incurred	<u>(5,487,220)</u>	<u>-</u>	<u>(5,487,220)</u>	
Net Income (loss)	<u>\$ (9,979,067)</u>	<u>\$ -</u>	<u>\$ (9,979,067)</u>	

ODS HEALTH PLAN, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2009	2008	2007
Capital and surplus, December 31, previous year	<u>\$39,846,144</u>	<u>\$38,281,240</u>	<u>\$37,794,399</u>
Net income	(9,979,067)	1,328,536	3,537,754
Change in net unrealized capital gains (losses)	2,487,186	(4,532,201)	767,297
Change in net deferred income tax	4,188,080	(4,124,137)	-
Change in nonadmitted assets	(832,624)	(1,107,294)	(3,818,210)
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	23,000,000	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	12,703,458	10,000,000	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>31,567,033</u>	<u>1,564,904</u>	<u>486,841</u>
Surplus as regards policyholders, December 31, current year	<u>\$71,413,177</u>	<u>\$39,846,144</u>	<u>\$38,281,240</u>

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 not have a significant exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2009, with a book carrying value of \$15.5 million, comprised over 14.8% of the total long-term bond portfolio. An additional \$16.2 million was invested in banks and financial institutions, equaling 15.5% of the portfolio.

Common stocks were comprised of investments in four wholly owned subsidiaries and in five separate mutual funds, primarily invested in small cap stocks and stock index portfolios. The Company's largest stock holding was its subsidiary, DBIC, with a reported fair value of \$11,310,213, and was also examined by the Oregon Insurance Division as of December 31, 2009. The fair value of all common stocks, including subsidiaries, was \$33,123,705.

Cash and short-term deposits consisted of cash on deposit and investments in US Obligations, money market mutual funds and two repo agreements. Under the Company's cash management system, HSG holds all of the Company's cash, as described earlier in this report. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>and</u> <u>Preferred</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2005	61,032,917	49,177,417	(1,082,473)	46.1%	37.2%	(0.8)%
2006*	64,582,476	53,697,521	(8,820,455)	45.9%	38.2%	(6.3)%
2007	69,437,798	55,362,666	(6,454,110)	47.2%	37.6%	(4.4)%
2008	76,971,492	24,845,739	24,743,095	43.0%	13.9%	13.8%
2009*	104,323,541	33,123,704	16,523,768	45.0%	14.3%	7.1%

Approval of investment transactions was performed by the finance committee of the Board of Directors, pursuant to ORS 733.740. As of December 31, 2009, invested assets of \$62,358,446 representing 36% 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.

Effective April 1, 2006, the Company entered into a custodial agreement with the US Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Claims Unpaid and Unpaid Claims Adjustment Expense Reserves

David Dillon, FSA, MAAA, of the firm Lewis & Ellis, Inc., reviewed the loss and loss adjustment expenses in the Company's filed financial statements as of December 31, 2009. The purpose of his review was to determine, in general, if the Company's actuarial items were reasonably stated. In his opinion, he concluded:

- 1) The Company's claims unpaid provision appeared inadequate by approximately 7%. Mr. Dillon noted that reserve adequacy has been consistently declining since 2005, and was inadequate in both 2008 and 2009.
- 2) Based on a recent pattern of declining adequacy in the claims unpaid liability provision, ODS Health Plan should develop formal margin studies to help assess reserve methodologies.
- 3) Due to a billing practice, ODS Health Plan did not establish unearned premium reserves. Mr. Dillon believes the impact was financially immaterial for 2009. However, the reserve provision should be established for future time periods.
- 4) In their Premium Deficiency Reserve calculation, the Company appears to use an expense assumption that appears low versus company experience. Additional testing and documentation should be provided that supports that the expenses not included in the PDR testing can be covered by other lines of business. If this practice is not supportable by testing, then the PDR should be recalculated with an updated expense amount.
- 5) ODS Health Plan's terminal liability was backed out of amounts receivable and added as a paid claim.

To explain the last item, under partially insured plans, the Company will receive and pay claims from providers and then collect premiums and administrative income. The Company received premiums on certain contracts that were less than the claims paid to providers. Therefore, the Company recorded a recoverable for the deficit. If the contract is terminated prior to collection of this receivable, this would result in an accumulated deficit that the Company labeled a "terminal liability." At December 31, 2009, this terminal liability amounted to \$34.4 million. To comply with statutory accounting requirements of SSAP No. 47, paragraph 4, this terminal liability was backed out of receivables because the associated claims had already been paid. These claims were included as 2009 incurred claims and included in Line 1.1 of Part 2 of the Underwriting & Investment Exhibit.

The comparison of Mr. Dillon’s findings to the 2009 annual statement is as follows:

	<u>Actuarial Report</u>	<u>Annual Statement</u>
Claims Unpaid	\$ 22,795,255	\$ 21,200,000
Accrued Medical Incentive Pool and Withhold Amounts	0	0
Unpaid Claim Adjustment Expense	1,060,000	1,060,000
Unearned Premium Reserve	0	0
Aggregate Health Policy Reserves	11,597,576	11,597,576
Premiums received in advance	5,780,047	5,780,047
Liability for amounts held under uninsured plans	109,308,326	109,308,326
Amounts receivable relating to uninsured plans	12,173,179	12,173,179

As a result of Mr. Dillon’s report, the unpaid claims reserve was found to be deficient by \$1,595,255. Due to the immaterial impact on surplus, the examiners will not propose an adjustment, however, **I recommend the Company develop formal margin studies to assess the reserve methodologies that meet moderately adverse conditions in its claims unpaid reserve.**

Note 3 – Other Invested Assets (Schedule BA)

On December 31, 2009, HSG contributed 100% of its ownership in a limited liability corporation, ODS Bend Property LLC, to the Company. Because LLCs are not addressed in the Oregon Insurance Code, and likewise are not expressly prohibited, the Company was directed to limit its investment to no more than 7.5% of total admitted assets pursuant to the “prudent investor” standards of ORS 733.670(2). When we compared the total investment of \$9,868,220 to the total admitted assets as of the most recently filed statement (September 30, 2009), the LLC represented 5.0% of assets, and the Company was in compliance. At December 31, 2009, the book value of the investment represented 4.2% of total admitted assets.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There was one comment or recommendation made as a result of this examination, as follows:

Page

26 I recommend the Company develop formal margin studies to assess the reserve methodologies that meet moderately adverse conditions in its claims unpaid reserve.

CONCLUSION

During the three-year period covered by this examination, the surplus of the Company has increased from \$36,898,709, as presented in the December 31, 2006, report of examination, to \$71,413,177, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2009</u>	December 31,	<u>2006</u>	<u>Change</u>
Assets	\$231,701,035		\$139,832,273	\$91,868,762
Liabilities	<u>160,287,858</u>		<u>102,933,564</u>	<u>57,354,294</u>
Surplus	<u>\$ 71,413,177</u>		<u>\$ 36,898,709</u>	<u>\$34,514,468</u>

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, CFE, Mark Giffin, CFE, and Michael P. Phillips, CPA, CFE, AES, insurance examiners 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 ODS Health Plan, Inc.
2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of ODS Health Plan, Inc. 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 _____, 2010.

Notary Public for the State of Oregon

My Commission Expires: _____