



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF TARGET FINANCIAL EXAMINATION

OF

**OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFIT TRUST
PORTLAND, OREGON**

AS OF

JUNE 30, 2003

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December 12, 2003

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 pursuant to ORS 731.300, I have conducted a target examination of

OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFIT TRUST
700 NE Multnomah Street, Suite 1300
Portland, Oregon, 97232

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

SCOPE OF EXAMINATION

This target examination was conducted as a result of the Trust reporting surplus of \$1,050,294 which was less than \$1,250,000 required under the provisions of ORS 750.309(2). In addition, the Trust reported a loss ratio of 27%, which is lower than the industry average of 89%. This implied there may have been an understatement of the unpaid claims liability.

The financial target examination focused on the Trust's reported surplus, losses incurred, and unpaid claims liability.

In conjunction with this financial examination, a separate market conduct follow up examination was performed by insurance examiners from the Department of Consumer and Business Services, State of Oregon. The market conduct examination findings have been incorporated into a separate report.

EXAMINATION FINDINGS

Actuarial Analysis

The examination of unpaid claims and unpaid claims adjustment expense was performed by David Ball, FSA, MAAA, Oregon Insurance Division's life and health actuary. He determined the reported unpaid claims liability of \$105,711 to be understated in the amount of \$1,096,949. In addition, the reported unpaid claims adjustment expense liability of \$33,000 was also understated in the amount of \$27,133. As a result of this actuarial analysis, an aggregate adjustment in the amount of \$1,124,082 was made to surplus resulting in a net surplus deficit of \$73,788. This amount is below the minimum surplus requirement of \$250,000 pursuant to the provisions of ORS 750.309(3). Therefore, as of June 30, 2003, the

Trust was impaired in the amount of \$323,788 as defined by ORS 734.014(4). See Notes 1 and 2 to the Financial Statements and the Conclusion section for additional information.

I recommend the Trust properly calculate the unpaid claims and unpaid claims adjustment expense liabilities to comply with ORS 733.030.

Contributed Surplus

The provisions of ORS 750.309(3) require that the Trust maintain capital or surplus, or any combination thereof, but not less than \$250,000. However, ORS 750.309(2) requires the Trust have an excess of loss reinsurance policy to insure against its liabilities for health benefits with regards to any one participant in excess of 10% of its capital and surplus. The reinsurance agreement with HCC Life Insurance Company established the Trust's retention at \$125,000 per participant. To maintain compliance with ORS 750.309(2), the Trust elected to increase the contributed surplus to \$1,260,000 rather than reduce its retention per participant. The information provided the examiner during the qualifying examination supported that the Trust had contributed surplus in the amount of \$1,260,000.

The examination found the following practices and procedures inconsistent with maintaining compliance with ORS 750.309(2) and information obtained during the qualifying examination.

- 1) Premiums earned were recorded at the proper amount, but rather than collecting premiums from the member institutions, the contributed surplus account was reduced by \$1,250,000.
- 2) On May 16, 2003, the Trust paid the Oregon Independent Colleges Association \$10,000 and reduced the contributed surplus by the same amount.

The above-described practices and procedures resulted in a zero balance in the contributed surplus account as of June 30, 2003. As a result of the above transactions, the Trust provided insurance coverage to the employees of the institutional members without requiring sufficient premiums to be paid for May and June. For additional discussion and recommended corrective action, see the conclusion section on page 11.

Management Evaluation

As evidenced by the above findings, the Trust does not have management with insurance experience nor has it obtained the necessary expertise from consultants. Given the lack of insurance experience, **I recommend the Trust take the necessary steps to immediately hire management personnel with insurance experience or provide existing management personnel necessary training to obtain an understanding of statutory accounting and insurance company management. This recommendation is supported by ORS 731.386(1).**

OREGON INDEPENDENT COLLEGE EMPLOYEE BENEFITS TRUST
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
As of June 30, 2003

<u>ASSETS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Cash	(\$ 177,382)	\$ 0	(\$ 177,382)
Short-term investments	1,365,471	0	1,365,471
Premium due and unpaid	<u>21,330</u>	<u>0</u>	<u>21,330</u>
Total Assets	<u>\$1,209,419</u>	<u>0</u>	<u>\$1,209,419</u>
 <u>LIABILITIES</u>			
Unpaid claims (Note 1)	\$ 105,711	\$1,096,949	\$1,202,660
Unpaid claims adjustment expense (Note 1)	33,000	27,133	60,133
Other expenses due or accrued	<u>20,413</u>	<u>0</u>	<u>20,413</u>
Total Liabilities	<u>159,124</u>	<u>1,124,082</u>	<u>1,283,206</u>
 <u>SURPLUS AND OTHER FUNDS</u>			
Gross paid in and contributed surplus	0	0	0
Unassigned funds	<u>1,050,294</u>	<u>(1,124,082)</u>	<u>(73,788)</u>
Total Surplus and Other Funds	<u>1,050,294</u>	<u>(1,124,082)</u>	<u>(73,788)</u>
Total Liabilities, Surplus and Other Funds	<u>\$1,209,419</u>	<u>\$ 0</u>	<u>\$1,209,419</u>

OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFITS TRUST
UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME
For the Quarter Ended June 30, 2003

<u>UNDERWRITING INCOME</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Premiums earned	\$ <u>1,653,159</u>	\$ <u>0</u>	<u>\$1,653,159</u>
Claims incurred (Note 2)	445,458	1,096,949	1,542,407
Expenses incurred:			
Claims adjustment (Note 2)	98,670	27,133	125,803
Administrative	43,670	0	43,670
Soliciting	<u>15,126</u>	<u>0</u>	<u>15,126</u>
Total underwriting deductions	602,923	1,124,082	1,727,006
 <u>INVESTMENT INCOME</u>			
Net investment income earned	<u>58</u>	<u>0</u>	<u>58</u>
Net gain or (loss)	<u>\$1,050,294</u>	<u>(\$1,124,082)</u>	<u>(\$73,788)</u>
 <u>SURPLUS ACCOUNT</u>			
Surplus as regards policyholders, prior examination	\$1,260,000	\$ 0	\$1,260,000
Net income	1,050,294	(1,124,082)	(73,788)
Contributed surplus	<u>(1,260,000)</u>	<u>0</u>	<u>(1,260,000)</u>
Change in surplus as regards policyholders for the quarter	<u>1,050,294</u>	<u>(1,124,082)</u>	<u>(73,788)</u>
Surplus as regards policyholders, current year	<u>\$1,050,294</u>	<u>(\$1,124,082)</u>	<u>(\$73,788)</u>

OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFITS TRUST
RECONCILIATION OF EXAMINATION CHANGES
Examination as of June 30, 2003

After evaluation of the assets and providing for all known liabilities, the following changes were made to the net worth reported by the Trust as of June 30, 2003.

Surplus reported per Trust as of June 30, 2003 \$1,050,294

<u>Examination Changes</u>	<u>Increase</u>	<u>Decrease</u>	
<u>Assets</u>	<u>0</u>	<u>0</u>	
<u>Liabilities</u>			
Unpaid claims	0	1,096,949	
Claims adjustment expenses	<u>0</u>	<u>27,133</u>	
Total	<u>0</u>	<u>1,124,082</u>	
Total adjustments			<u>(1,124,082)</u>
Net worth reported per examination as of June 30, 2003			<u>(\$ 73,788)</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Unpaid Claims and Unpaid Claims Adjustment Expenses

Unpaid Claims

Balance reported by the Trust	\$ 105,711
Examined balance	<u>1,202,660</u>
Difference	<u>\$1,096,949</u>

Unpaid Claims Adjustment Expenses

Balance reported by the Trust	\$33,000
Examined balance	<u>60,133</u>
Difference	<u>\$27,133</u>

The examination of unpaid claims liability included an actuarial analysis for the period ending June 30, 2003, performed by David Ball, FSA, MAAA, Oregon Insurance Division's life and health actuary. He determined the reported unpaid claims liability of \$105,711 to be understated in the amount of \$1,096,949. In addition, the reported balance of \$33,000 of unpaid claims adjustment expenses liability was also determined to be understated in the amount of \$27,133.

Note 2 – Claims Incurred and Claims Adjustment Expenses

Claims Incurred

Balance reported by the Trust	\$ 445,458
Examined balance	<u>1,542,407</u>
Difference	<u>\$1,096,949</u>

Claims Adjustment Expenses

Balance reported by the Trust	\$ 98,670
Examined balance	<u>125,803</u>
Difference	<u>\$ 27,133</u>

See Note 1 for explanation.

SUBSEQUENT EVENT

Subsequent to the date of this examination, the Trust assessed the members and received on September 5, 2003, a surplus contribution in the amount of \$210,000.

CONCLUSION

During the two month period covered by this examination, the surplus of the Trust has decreased from \$1,260,000, as presented in the May 27, 2003, report of qualifying examination, to (\$73,788), as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<u>May 2003</u>	<u>June 2003</u>	<u>Change</u>
Assets	\$1,260,000	\$1,209,419	(\$ 50,581)
Liabilities	<u>0</u>	<u>1,283,206</u>	<u>(1,283,206)</u>
Net Worth	<u>\$1,260,000</u>	<u>(\$73,788)</u>	<u>(\$1,333,788)</u>

The following is a calculation for the net surplus contribution requirement.

Surplus per examination	(\$ 73,788)
Assessments received subsequent to examination - See Subsequent Events	<u>210,000</u>
Adjusted surplus	136,212
Additional surplus required to comply with ORS 750.309(3)	113,788
Additional surplus required to comply with ORS 750.309(2)	<u>1,010,000</u>
Subtotal	<u>1,260,000</u>
Net surplus contribution required	<u>\$1,123,788</u>

The Trust must immediately infuse surplus of at least \$1,123,788 to comply with the provisions of ORS 750.309(2) and (3). No recommendation will be made, as the Trust assessed its members and received a surplus contribution in the amount of \$1,123,897 on October 30, 2003.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are issues and concerns the examiner believes should be brought to management's attention as a result of this examination.

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- 5 I recommend the Trust properly calculate the unpaid claims and unpaid claims adjustment expense liabilities to comply with ORS 733.030.

- 6 I recommend the Trust take the necessary steps to immediately hire management personnel with sufficient qualifications, or provide existing management necessary training, to avoid the director having to take actions pursuant to of ORS 731.386(1).

ACKNOWLEDGMENT

The examiner wishes to express her appreciation for the cooperation extended by the consultants and service providers of the Trust during the course of this examination.

In addition to the undersigned, David Ball, FSA, MAAA, life and health actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination.

Respectfully submitted,

Patricia Neesham, CPA, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Patricia Neesham, being duly sworn, deposes and says that the preceding target report of financial examination as of June 30, 2003, of Oregon Independent Colleges Employee Benefit Trust, Portland, Oregon, subscribed by her is true to the best of her knowledge and belief.

Patricia Neesham, CPA, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 2004.

Notary Public in and for the State of Oregon