



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

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

AS OF

DECEMBER 31, 2004

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June 10, 2005

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 examined the business affairs and financial condition of

**OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFITS 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**

The examination was conducted as of December 31, 2004, and covered the period since March 17, 2003, the date of the Trust's qualifying examination. Also included was a review of events and transactions subsequent to December 31, 2004.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition and ability to fulfill its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested to the extent considered necessary.

The Trust's compliance with comments and recommendations made in the qualifying examination report and the report of a target examination conducted as of June 30, 2003 was determined.

Mr. David Ball, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination by evaluating unpaid claims and unpaid claims adjustment expenses. The results of his analyses are found under the relevant section of this report.

## **COMPANY HISTORY**

The Trust was organized on July 1, 2002, as a Voluntary Employers Beneficiary Association under the provision of Section 501(c)(9) of the 1986 IRC Code. It received a certificate of authority on April 14, 2003, to provide health and welfare benefits to employees of participating colleges that are members of the Oregon Independent Colleges Association.

The Trust is subject to the Employee Retirement Income Security Act of 1974 (ERISA) as well as the Oregon Insurance Code.

The Trust provides medical, dental and vision benefits to employees and dependents that meet the eligibility criteria of their employer. Coverage is also provided to active and retired employees making self contributions.

### **MANAGEMENT AND CONTROL**

#### **Board of Trustees**

One trustee is appointed by each of the participating colleges and serves until their resignation, removal, incapacity or death. A trustee may be removed at any time by action of the appointing college.

The Board is comprised of seven trustees:

<b><u>Name</u></b>	<b><u>Representation</u></b>
Carl B. Vance 900 S. Baker Street McMinnville, OR	Linfield College
George Michael Goins 414 N. Meridian Street Newberg, OR	George Fox University
Edwin McFarland 23203 SE Woodstock Blvd. Portland, OR	Reed College
Gregory Clark Walters 0615 SW Palatine Hill Road Portland, OR	Lewis & Clark College
Mona Kavolius Ward 2043 College Way Forest Grove, OR	Pacific University

<u>Name</u>	<u>Representation</u>
Betty Henninger 2900 NE 132 <sup>nd</sup> Portland, OR	Western States Chiropractic College
Jeff Eisenbarth 900 State Street Salem, OR	Willamette University

**Officers**

Operating management of the Trust as of December 31, 2004, was under the direction of the following personnel:

<u>Name</u>	<u>Title</u>
Carl B. Vance	Chairperson
Edwin McFarland	Vice-Chair
George Michael Goins	Treasurer

**CONFLICT OF INTEREST**

The Trust has an established policy requiring disclosure of any material interest or affiliation on the part of any of its trustees, trust service providers and officers which is in, or is likely to, conflict with official duties. After a review of the Code of Ethics, which was completed by each trustee and trust service provider, no exceptions were noted.

**CORPORATE RECORDS**

**Board Minutes**

A quorum met at all of the meetings held. In general, the review of 2003 and 2004 Board minutes indicated that the minutes support the transactions of the Trust and the actions taken by its officers. However, the minutes did not show evidence that the Board approved investments. I noted the Trust invests only in US Treasury obligations through Wells Fargo Bank, without the use of an external investment manager.

**I recommend the Trust establish a procedure for evaluating and approving investments in accordance with the provisions of ORS 733.770 and ORS 733.740.**

**Articles of Incorporation and Bylaws**

The Trust does not have Articles of Incorporation or Bylaws, but is governed by a Trust Agreement which defines its purpose and sets forth the rights and obligations of its Trustees and participants. No changes were made to the Trust Agreement during the period under review.

**HOLDING COMPANY REGISTRATION**

The Trust is not a member of "a controlled group" or "an insurance holding company system," therefore, no holding company registration was filed with the Oregon Insurance Division.

**AFFILIATED COMPANIES**

The Trust was created by the Oregon Independent Colleges Association, Inc., an association representing 17 regionally accredited, nonprofit institutions of higher education and their students. Dues from each member institution and grants from trust foundations fund the Association.

**FIDELITY BONDS AND OTHER INSURANCE COVERAGES**

The examination of insurance coverages involved a review of adequacy of limits and retention, and the solvency of the insurers providing the coverages. At December 31, 2004, the Trust was insured against employee dishonesty by the Hartford Fire Insurance Company of Hartford, Connecticut, to a limit of \$150,000. The fidelity coverage meets the NAIC recommended minimum.

## **TERRITORY AND PLAN OF OPERATION**

The Trust provides health insurance benefits to employees of the seven participating member institutions: George Fox University; Lewis & Clark College; Linfield College; Pacific University; Reed College; Western State Chiropractic College; and Willamette University. There are ten remaining member institutions within the Oregon Independent College Association that are eligible to participate in the Trust.

The Trust operates through administrative service agreements with consultants, providers and utilization managers. USI Northwest, Inc., is the plan administrator. Covenant Administrators, Inc., processes claims and premium billing for the Trust. Western Benefits, Inc., provides accounting services.

## **GROWTH OF THE TRUST**

The growth of the Trust since inception is reflected in the following schedule. The amounts were derived from the Trust's annual statement and, where indicated, from the current and previous examinations.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Net Worth</u></b>	<b><u>Net Income</u></b>
3/17/03*	\$1,260,000	\$ 0	\$1,260,000	\$ 0
6/30/03*	1,209,419	1,283,206	(73,788)	(73,788)
12/31/03	2,814,645	1,563,793	1,250,852	668
12/31/04*	3,736,042	2,404,027	1,332,015	(307,659)

\*Per examination

## **LOSS EXPERIENCE**

The following exhibit reflects the loss experience of the Trust since inception. The amounts were compiled from copies of the Trust's filed annual statements and, where indicated, from the current and previous examination reports.

<u>Year</u>	<u>Earned Premium</u>	<u>Claims Incurred</u>	<u>Medical Loss Ratio</u>
6/30/03*	\$ 1,653,159	\$ 1,542,407	93.3%
12/31/03	8,014,329	7,493,711	93.5%
12/31/04*	10,866,081	10,516,712	96.8%

\*Per examination

### REINSURANCE

Effective April 1, 2003, the Trust obtained an excess of loss reinsurance policy from HCC Life Insurance Company that provides reinsurance coverage for medical expenses and prescription claims in excess of \$125,000 per member, with a lifetime maximum reimbursement of \$1,875,000 per person. In addition to the per member limitations, once the aggregate deductible amount has been reached for the agreement year the reinsurer pays 100% of eligible charges up to \$1,000,000.

Effective November 1, 2004, the reinsurance agreement was amended to reduce the retention point to \$115,000 per member. No other changes were made to the reinsurance agreement subsequent to the date of completion of the fieldwork.

#### *Provision for Notification Upon Termination*

The reinsurance agreement contains a provision that it may not be terminated for any reason by any person unless the director of the Department of Consumer and Business Services receives a written notice of termination from the insurer at least 30 days before the effective date of the termination, as required by ORS 750.309(5).

### STATUTORY DEPOSIT

At the date of the examination, the Trust filed with the Oregon Insurance Division a surety bond in the sum of \$250,000, which meets the requirements of ORS 750.309(5).

## ACCOUNTS AND RECORDS

In general, the Trust's records and source documentation supported the amounts presented in the Trust's December 31, 2004 annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170. In addition, disbursements were evidenced by bills, invoices or statements pursuant to the provisions of ORS 732.320.

However, the following recommendations have been made as a result of this examination:

### Checks Outstanding

The listing of outstanding checks included in the December 2004 check register included a number of checks that were over six months old. These amounts should be transferred to a liability account and evaluated for possible escheatment to the Oregon Division of State Lands. **I recommend the Trust report all stale-dated checks as a liability for unclaimed funds in all future filings with the Oregon Insurance Division and remit unclaimed funds to the Oregon Division of State Lands in accordance with ORS 98.304.**

### Investment Custodial Agreement

The investment custody agreement with Wells Fargo Brokerage Services does not include all the language required by OAR 836-027-0200 and/or the relevant provisions of the NAIC Financial Condition Examiners Handbook. **I recommend the Trust submit an amended custodial agreement to the Insurance Division that contains all the appropriate safeguards and protections.**

**Compliance with ORS 750.309(2) and Limit of Risk**

As noted under the Reinsurance section above, the Trust maintains an excess of loss policy that limits its claims liability to \$115,000 per risk. Pursuant to ORS 750.309(2), the Trust must maintain capital and surplus above \$1,150,000 at all times, so that no individual risk exceeds 10% of statutory surplus. During 2004, the Trust submitted quarterly and monthly financial statements to the Oregon Insurance Division that reported surplus below this amount. While the Trust was in compliance at December 31, 2004, it should be in compliance at all times.

**OREGON INDEPENDENT COLLEGES EMPLOYEE BENEFITS TRUST**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2004**

<b><u>ASSETS</u></b>	<b><u>Per Trust</u></b>	<b><u>Adjustments</u></b>	<b><u>Per Examination</u></b>
Bonds (Note 1)	\$ 849,222	\$ 0	\$ 849,222
Common stocks	0	7,150	7,150
Cash on deposit	(193,705)		(193,705)
Short-term investments	2,646,904	(7,150)	2,639,754
Accident and health premiums due and unpaid	24,573		24,573
Investment income due and accrued	9,682		9,682
Reinsurance recoverable	387,430		387,430
Aggregate write-in for other than invested assets	<u>11,936</u>	<u>0</u>	<u>11,936</u>
Total Assets	<u>\$3,736,042</u>	<u>\$ 0</u>	<u>\$3,736,042</u>
 <b><u>LIABILITIES</u></b>			
Claims unpaid (Note 2)	\$2,102,998	\$196,737	\$2,299,735
Unpaid claims adjustment (Note 2)	84,120	7,869	91,989
General expenses due or accrued	<u>12,303</u>	<u>0</u>	<u>12,303</u>
Total Liabilities	<u>2,199,421</u>	<u>204,606</u>	<u>2,404,027</u>
 <b><u>RESERVES &amp; OTHER FUNDS</u></b>			
Gross paid-in and contributed surplus	1,640,853	0	1,640,853
Unassigned funds	<u>(104,232)</u>	<u>(204,606)</u>	<u>(308,838)</u>
Total Reserves & Other Funds	<u>1,536,621</u>	<u>204,606</u>	<u>1,332,015</u>
Total Liabilities, Reserves and Other Funds	<u>\$3,736,042</u>	<u>\$ 0</u>	<u>\$3,736,042</u>

**OREGON INDPENDENT COLLEGES EMPLOYEE BENEFITS TRUST**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

<b><u>UNDERWRITING INCOME</u></b>	<b><u>Per Trust</u></b>	<b><u>Examination Adjustment</u></b>	<b><u>Per Examination</u></b>
Premiums earned	\$10,866,081	\$ 0	\$10,866,081
Claims incurred	10,319,975	196,737	10,516,712
Expenses incurred			
Claims adjustment	404,246	7,869	412,115
Administrative	181,148		181,148
Soliciting	<u>88,414</u>	<u>0</u>	<u>88,414</u>
Total underwriting deductions	<u>10,993,784</u>	<u>204,606</u>	<u>11,198,389</u>
Net underwriting gain or (loss)	(127,703)	(204,606)	(332,308)
 <b><u>INVESTMENT INCOME</u></b>			
Net investment income earned	<u>24,649</u>	<u>0</u>	<u>24,649</u>
Net gain or (loss)	<u>(\$103,053)</u>	<u>(\$204,606)</u>	<u>(\$307,659)</u>
 <b><u>SURPLUS ACCOUNT</u></b>			
Capital and surplus December 31, 2003	\$ <u>1,250,853</u>	\$ <u>0</u>	\$ <u>1,250,853</u>
Net income	(103,053)	(204,606)	(307,659)
Net unrealized capital gains or (losses)	(2,032)		(2,032)
Contributed or paid-in surplus	<u>390,853</u>	<u>0</u>	<u>390,853</u>
Change in surplus as regards policyholders for the year	<u>285,767</u>	<u>(204,606)</u>	<u>81,162</u>
Surplus to policyholders, December 31, 2004	<u>\$ 1,536,620</u>	<u>(\$204,606)</u>	<u>\$ 1,332,015</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Investments

A multiyear comparison of the investments is shown below:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stock</u>	<u>C</u> <u>Cash and</u> <u>Short term</u>	<u>Ratio</u> <u>A /</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2003	201,284	0	2,258,189	7%	0%	80%
2004*	849,222	7,150	2,446,049	22%	0%	65%

\*Per examination

As of December 31, 2004, \$2,862,364 or 87% of the invested assets were invested in amply secured obligation of the United States, which exceeded the required capitalization amount required pursuant to ORS 733.580.

A reclassification of \$7,150 was made for funds invested in a mutual fund listed on Schedule DA that should have been reported as common stock in accordance with SSAP No. 30, paragraph 3. While this reclassification does not affect surplus, the Trust is directed to properly classify all investments in accordance with the Accounting Practice and Procedures Manual of the NAIC.

### Note 2 - Claims Unpaid and Unpaid Claims Adjustment Expenses

A review of the unpaid claims and 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 was understated by \$196,737 and the reported unpaid claims adjustment expense was understated by \$7,869. The total adjustment to these liabilities is \$204,606. He also commented on two items of concern, as follows:

#### Claims Backlog

The Trustees placed a limit on payment of benefits of \$200,000 per week beginning in March 2004, due to cash flow problems. This practice created a backlog of claims that amounted to approximately \$557,668 by year-end 2004. The Trustees voted to raise this cap to \$300,000 in a Board of Trustees meeting held January 26, 2005. The cap was removed by a resolution passed on May 11, 2005. **I recommend the Trust pay all claims when presented, pursuant to ORS 746.230.**

#### Actuarial Opinion

The Trust's consulting actuary, James Reed, MAAA, of Milliman, Inc., issued an actuarial opinion of unpaid claims liabilities as of December 31, 2004. The liability represented a best estimate, which did not include an estimated margin. **I recommend the Trust include all actuarial reserves which contain a "good and sufficient" margin that complies with the provision of ORS 750.315 and OAR 836-014-0100.**

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The following is a summary of issues and concerns the examiner believes should be brought to management's attention as a result of this and prior examinations.

### Page

- 7 I recommend the Trust establish a procedure for evaluating and approving investments in accordance with the provisions of ORS 733.770 and ORS 733.740.
- 10 I recommend the Trust report all stale-dated checks as a liability for unclaimed funds in all future filings with the Oregon Insurance Division and remit unclaimed funds to the Oregon Division of State Lands in accordance with ORS 98.304.
- 10 I recommend the Trust submit an amended custodial agreement to the Insurance Division that contains all the appropriate safeguards and protections.
- 14 I recommend the Trust pay all claims when presented, pursuant to ORS 746.230.
- 14 I recommend the Trust include all actuarial reserves which contain a "good and sufficient" margin that complies with the provision of ORS 750.315 and OAR 836-014-0100.

## **CONCLUSION**

During the period covered by this examination, the surplus of the Trust increased from \$1,260,000, as presented in the March 17, 2003, qualifying report of examination to \$1,332,015, as shown in this report of examination.

## **ACKNOWLEDGMENT**

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

In addition to the undersigned, Michael P. Phillips, CPA, CFE, AES, and Thomas Farrelly, CFE, insurance examiners, and David Ball, FSA, MAAA, actuary, with the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Greg A. Lathrop, being duly sworn, deposes and says that the foregoing report of examination as of December 31, 2004, of Oregon Independent Colleges Employee Benefits Trust, Portland, Oregon, subscribed by him is true to the best of his knowledge and belief.

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

Subscribed and sworn before me this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

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