

STATE OF OREGON

DEPARTMENT OF INSURANCE AND FINANCE

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**OREGON PACIFIC STATES INSURANCE COMPANY  
PORTLAND, OREGON**

**NAIC COMPANY CODE 97985**

AS OF

DECEMBER 31, 1995

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September 16, 1996

Honorable Kerry Barnett, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440-4  
Salem, Oregon 97310

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

**Oregon Pacific States Insurance Company  
100 SW Market Street  
Portland, Oregon 97201**

**NAIC Company Code 97985**

hereinafter referred to as the "Company" or "OPS." This report of examination is respectfully submitted.

### **SCOPE OF EXAMINATION**

The examination of the Company was conducted as of December 31, 1995, covering the 4 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. Four years were allowed to elapse between examinations of the Company in order to accommodate simultaneous examinations in the future of all 6 companies in the group. This is still within the 5 year maximum allowed between examinations pursuant to provisions of ORS 731.300(1).

The examination was conducted pursuant to the provisions of 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, ability to fulfill and the manner of fulfillment of its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Company with respect to comments and or recommendations made in the previous financial report of examination as of December 31, 1991.

In addition to the above, the examiner reviewed work papers prepared by Deloitte & Touche LLP, the Company's independent auditors, in their examination of the Company's accounts for the year ended December 31, 1995. A portion of the auditors' work papers have been incorporated into the work papers of the examiner, and have been utilized in determining the scope and areas of emphasis in conducting the examination.

A management affirmation attesting to the Company's compliance with Oregon laws relating to location of accounts and records, conduct of the Company's affairs in a nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Chairman of the Board of Directors.

Concurrent with this examination, Blue Cross and Blue Shield of Oregon, Preferred Health Northwest, Inc., HMO Oregon, Health Maintenance of Oregon, Inc., and Health Masters of Oregon, Inc., were also examined. There will be a separate report of financial examination for each company. Concurrent market conduct examinations were performed on OPS, Blue Cross and Blue Shield of Oregon, and HMO Oregon and separate reports of examination will be produced for each company.

The Oregon Department of Consumer and Business Services contracted with the actuarial firm of Taylor-Walker & Associates to evaluate the adequacy of various liabilities. The results of their analyses are found under the relevant section in this report.

### **COMPANY HISTORY**

The Company was created as a health care service contractor on September 22, 1964, as a for profit stock company under the name of Medical Health Company, Inc. The Company was then a subsidiary of Oregon Physicians' Service, one of the predecessor companies of Blue Cross and Blue Shield of Oregon (BCBSO).

On September 17, 1982, the Company's name was changed to Greater Northwest Insurance Company. On December 17, 1982, Greater Northwest Insurance Company, a for profit health care service contractor, was converted to a stock life and health insurance company with the approval of the Oregon Insurance Division. The Company surrendered the existing Certificate of Authority and was issued a new Certificate of Authority in the name of Greater Northwest Insurance Company.

On March 1, 1983, the Company became a wholly-owned subsidiary of BCBSO when Oregon Physicians' Service merged into BCBSO. On April 24, 1984, the Company changed its name to Oregon Pacific States Insurance Company.

### **AFFILIATED COMPANIES**

On June 1, 1995, BCBSO, King County Medical Blue Shield (State of Washington), Pierce County Medical Bureau, Inc. (State of Washington), and Medical Service Bureau of Idaho, Inc., entered into an Agreement of Affiliation. Pursuant to the agreement, an administrative service company named The Benchmark Group was formed as a non-profit holding company located in Portland, Oregon. The Benchmark Group is the sole voting member of the Pierce County Medical Bureau, King County Medical Blue Shield, and BCBSO and has a long term management services agreement with Medical Service Bureau of Idaho, Inc. The above 4 companies contributed \$5,000,000 to the Benchmark Group as follows: \$1 million cash in exchange for common stock plus \$4 million in cash in exchange for unsecured promissory notes.

BCBSO's wholly owned subsidiaries are Oregon Pacific States Insurance Company, Preferred Health Northwest, Inc., and Associated Administrators, Inc. Associated Administrators Inc. wholly owns Patrick A. Toohey & Associates. In addition BCBSO is the sole voting member of HMO Oregon which wholly owns Capitol Health Care Management, Inc. (CHCM) which wholly owns Health Maintenance of Oregon, Inc. and Health Masters of Oregon, Inc.

The following is a description of these affiliates and their operations:

Blue Cross and Blue Shield of Oregon (BCBSO) is a health care service contractor organized under the Oregon non-profit corporation laws. It provides group and

individual prepayment plans for hospital, medical and surgical benefits and group only plans for dental, prescription drug, vision care and other benefits.

Preferred Health Northwest, Inc. (PHN) is a for-profit healthcare provider. PHN was originally owned by CHCM and was transferred to BCBSO in 1993. At present, the Company does not write any business.

Associated Administrators, Inc. (AAI) is a wholly owned Washington corporation licensed to do business as a third party administrator.

Patrick A. Toohey & Associates (PATA) is a California corporation. This company is a wholly owned subsidiary of AAI, licensed to do business as a third party administrator. At present, this company does not conduct any business.

HMO Oregon (HMO-OR) is an Oregon health care service contractor and is federally qualified as a health maintenance organization. This company's sole voting member is Blue Cross and Blue Shield of Oregon. HMO-OR is the immediate parent of CHCM. HMO-OR conducts business in the southwest portion of Oregon.

Capitol Health Care Management, Inc. (CHCM) is an Oregon business corporation which functions as a down stream holding company to own all the stocks of HMO-OR subsidiaries and to consolidate the income tax results of the subsidiaries of HMO-OR.

Health Maintenance of Oregon, Inc. (HMOO) is an Oregon health care service contractor and is federally qualified as a health maintenance organization. HMOO was originally owned by Blue Cross and Blue Shield of Oregon and was transferred to HMO-OR in 1988. HMOO primarily markets its managed care products in the State of Washington.

Health Masters of Oregon, Inc. (HMO) was originally owned by Rogue Valley Physicians Services, Inc. Under the terms and conditions of the Plan and Agreement of Acquisition, BCBSO transferred the stock of Health Masters of Oregon, Inc., the wholly owned subsidiary of Rogue Valley Physicians Service, Inc., to Capitol Health Care Management, Inc. Presently this company is not writing any business.

The organizational chart at the end of this report depicts the Company's relationship to the group.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

Blue Cross and Blue Shield of Oregon is the sole stockholder of the 20,000 issued shares of common stock of the Company.

### **Board of Directors**

The Board is comprised of 5 directors as of December 31, 1995. The Board of Directors serve 3 year staggered terms with no limit on the number of terms that may be served. For the period examined, the Board of Directors meet the age, number of directors, resident requirement, and all other provisions of ORS 732.305.

Members of the Board of Directors, duly elected and serving as of December 31, 1995 were:

#### **Name and Address**

#### **Principal Affiliation**

Arnold R. Holloway  
100 SW Market Street  
PO Box 1271  
Portland, OR 97201

Senior Vice President - Benefit Services  
Blue Cross and Blue Shield of Oregon

Steven L. Hooker  
100 SW Market Street  
PO Box 1271  
Portland, OR 97201

President  
Oregon Pacific States Insurance Company  
Senior Vice President & Treasurer  
Blue Cross and Blue Shield of Oregon

**Name and Address**

**Principal Affiliation**

Joseph A. Martincic  
100 SW Market Street  
PO Box 1271  
Portland, OR 97201

Senior Vice President - Administrative Services  
Blue Cross and Blue Shield of Oregon

Barney H. Speight  
100 SW Market Street  
PO Box 1271  
Portland, OR 97201

Assistant to the President - Vice President  
Corporate Relations  
Blue Cross and Blue Shield of Oregon

Richard L. Woolworth\*  
100 SW Market Street  
PO Box 1271  
Portland, OR 97201

Chairman and CEO  
The Benchmark Group  
Blue Cross and Blue Shield of Oregon

\*Chairman of the Board

**Officers**

Operating management of the Company as of December 31, 1995 was under the direction of the following principal officers:

President	Steven L. Hooker
Secretary	Michael T. Mudrow
Treasurer	Lisa L. Johnson

It appears that, overall, officers and members of the Board are trustworthy, insurance experienced and possess the ability to direct the affairs of the Company, hence, meet the qualifications to hold a Certificate of Authority under ORS 731.386(1).

**MANAGEMENT AFFIRMATION**

## **CONFLICT OF INTEREST**

The Company has an established policy for disclosure of any material interest or affiliation on the part of any of its directors and officers employees which is in, or is likely to, conflict with official duties. No exceptions were noted in a review of such forms for the period under the examination.

## **CORPORATE RECORDS**

### **Board Minutes**

Regular Board meetings are held annually in March of each year. It was noted that the Board minutes were recorded in sufficient detail to determine the actions taken by the Board. A review of all minutes for the period under examination revealed no acts inconsistent with the Company's Articles of Incorporation or Bylaws. Investment guideline revisions and approval of investments are conducted by the Board of Directors' investment committee pursuant to the provisions of ORS 733.730. A quorum was achieved at all meetings held during the period under examination. Overall, the minutes supported the transactions of the Company and the actions taken by its officers.

### **Articles of Incorporation**

The Articles of Incorporation were in conformity with Oregon statutes. No amendments were made to the articles since the last examination.

### **Bylaws**

Bylaws were in conformity with Oregon statutes. No amendments were made to the articles since the last examination.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company, through its parent, has adequate insurance coverages in all exposed areas of risk. The examination of these coverages involved determining the methods by

which the Company assesses risk, adequacy of limits and retentions, and solvency of the insurers providing the coverages.

In addition to the general liability coverage, the Company is covered up to \$10,000,000 for directors and officers liability in a policy provided by its national Blue Cross affiliate, BCS Insurance, and an insurance company blanket bond (fidelity coverage). The fidelity coverage of \$5,000,000 met the prescribed minimum coverage as specified by the NAIC. Other major coverages of the Company include workers' compensation, difference in conditions, and automobile coverage.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to conduct the business of life and health insurance in the states of Oregon, Idaho, Montana and Washington. The Company markets group life, accidental death, short term medical and short and long term disability contracts directly and through independent agents. Over 98% of direct written premiums are produced in the State of Oregon.

### **RETIREMENT PLANS AND OTHER POST RETIREMENT BENEFITS**

The Company does not have any direct employees. An administrative agreement between the Company and BCBSO provides that all administrative services are provided by employees of BCBSO which provides certain retiree health and life insurance post-retirement benefits. Although costs for such benefits are allocated to it, the Company maintains no liability amount for such benefits. Such liability amounts are held solely by BCBSO.

### **INTERCOMPANY AGREEMENT**

At December 31, 1995, the Company did not have an updated intercompany management agreement with its Parent or affiliates pursuant to the provision of ORS

732.574 and ORS 733.170. Subsequent to the year end and before the last day of examination, the Company updated its service agreement with its Parent. BCBSO agreed to provide the services necessary for the business operations of the Company. These services include, but are not limited, to preparing insurance policies, record maintenance, and claims adjustment services. In exchange, the Company agreed to reimburse BCBSO all costs and expenses actually incurred by BCBSO for providing or arranging for the provision of the above services.

### **GROWTH OF THE COMPANY**

The following exhibit reflects the growth of the Company since 1987. The stated amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the examination reports.

<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 (Loss)</u></b>
1987	\$ 7,637,112	\$4,166,953	\$3,470,159	\$ 217,093
1988*	8,896,038	4,819,397	4,076,641	605,646
1989	9,867,702	5,022,241	4,845,461	768,034
1990	10,530,550	4,780,766	5,749,784	904,258
1991*	12,706,647	6,539,307	6,167,340	389,453
1992	13,355,654	7,186,450	6,169,204	201,279
1993	12,224,819	5,392,453	6,832,366	876,158
1994	13,208,619	5,859,401	7,349,218	840,528
1995*	15,852,819	7,004,844	8,847,975	1,207,697

\*Per examination

### **LOSS EXPERIENCE**

The following exhibit reflects the annual underwriting results of the Company since 1987. The stated amounts were compiled from copies of the Company's filed annual statements, and where indicated, from the examination reports.

<u>Year</u>	<b>(1)</b> <b>Benefits and</b> <b>Reserve Increases</b>	<b>(2)</b> <b>Net Premiums</b> <b>Earned</b>	<b>(1/2)</b> <b>Loss</b> <b>Ratio</b>
1987	\$4,634,870	\$ 5,778,507	80.2%
1988*	4,753,866	6,235,960	76.2
1989	4,905,269	7,051,565	69.6
1990	4,750,304	7,709,809	61.6
1991*	6,804,937	9,343,849	72.8
1992	5,354,176	7,474,679	71.6
1993	4,852,650	7,847,503	61.8
1994	5,056,153	8,477,089	59.6
1995*	6,216,262	10,174,415	61.1

All ratios appear reasonable for the period covered under the examination.

### **INVESTMENTS**

The following exhibit shows a 5 year quality distribution of the Company's bonds:

<u>Year</u>	<b>(1)</b> <b>Book Value</b> <b>Securities</b>	<b>(2)</b> <b>Market Value</b> <b>Securities</b>	<b>(3)</b> <b>Noninvestment</b> <b>Grade</b> <b>Securities*</b>	<b>(3/1)</b> <b>% of Portfolio</b>
1991	5,242,961	5,433,116	0	0%
1992	7,220,889	7,339,094	0	0%
1993	7,412,384	7,763,313	0	0%
1994	7,990,507	7,849,439	0	0%
1995	8,983,648	9,273,296	0	0%

\*Investment grade is defined by the NAIC as those securities with an NAIC Securities Valuation Office rating of "1" or "2". Prior to 1990, Investment Grade was defined as all securities with a "Yes" designation.

The Company's long standing practice is to maintain a high quality investment portfolio. Bonds represent approximately 66% of the total invested assets. There were no non-performing bonds at December 31, 1995.

Invested assets of \$4,709,117 or 30% of the total assets were invested in amply secured obligations of the United States, a state, a political subdivision of this state or FDIC

insured certificates of deposit as of December 31, 1995, in compliance with the provisions of ORS 733.580.

### **HOLDING COMPANY REGISTRATION**

The Company is a member of a holding Company system and as of December 31, 1995, no holding company registration was filed on behalf of the Company. This is contrary to the provisions of ORS 732.551 and OAR 836-27-010. Subsequent to the year end and before the last date of examination The Benchmark Group filed a proper registration statement with the Insurance Division and as of the date of this report the Company was in compliance with the provisions of the above code sections.

I recommend in the future the Company maintain compliance with the provisions of ORS 732.551 and OAR 836-27-010 by properly filing the holding company registration on or before the due date.

### **STATUTORY DEPOSIT**

As of December 31, 1995, the Company maintained the following deposits in various states:

<b><u>State</u></b>	<b><u>Description</u></b>	<b><u>Par Value</u></b>	<b><u>Statement Value</u></b>	<b><u>Market Value</u></b>
<b><u>OREGON</u></b>				
Oregon is holding deposits for <b>Montana</b>	US Treasury 7.0% 9/30/96	\$250,000	\$255,231	\$252,500
Idaho	US Treasury 8.5% 4/15/97	<u>200,000</u>	<u>204,047</u>	<u>208,000</u>
Total		<u>\$450,000</u>	<u>\$459,278</u>	<u>\$460,500</u>

The Oregon deposits were made pursuant to the provisions of ORS 731.604 and 731.640. Such deposits were verified from the records of the Insurance Division.

### **DIVIDENDS**

The Company did not pay or declare any dividends.

### **REINSURANCE**

#### **Ceded Reinsurance**

The Company had the following reinsurance coverages as of December 31, 1995:

#### **Catastrophic Reinsurance**

The Company is insured for catastrophic loss on group life and AD&D. The agreement defines a catastrophic accident as three or more lives killed in a common accident. The agreement provides for a maximum reimbursement of \$20,000,000 after a \$300,000 deductible.

#### **Long Term Disability**

The Company has 3 facultative agreements in which long term disability business is ceded to each of these reinsurers based on the most favorable premium offered to the Company. Under the 3 agreements, amounts reinsured range from 90% to 100% of the amounts ceded.

#### **Accidental Death & Dismemberment (AD&D)**

The Company has AD&D reinsurance under an automatic cession treaty. The treaty reinsures 50% of the premium and liability for the first \$100,000 of coverage, and 100% of liabilities over \$100,000. In addition, the treaty provides 50% AD&D coverage for first \$100,000 and 100% thereafter for its parent company (Blue Cross and Blue Shield of Oregon) employee plan.

### **Group Life**

The Company's group life business is reinsured by an excess of loss agreement for liabilities in excess of \$100,000.

### **Short-term Medical**

The Company's short-term medical business is reinsured by an excess of loss agreement for liabilities in excess of \$100,000.

### **Aggregate and Specific Stop Loss**

Aggregate and specific coverages are 100% reinsured for all losses that exceed the total premiums generated by this block of business

### **Assumed Reinsurance**

The Company assumes 100% of the individual accidental death benefit provided by BCBSO. This accidental death benefit is incidental to and is automatically included in the consumer advantage and youth care medical product marketed by BCBSO. This benefit is retroceded to Lincoln National Insurance Company on a 50% quota share basis.

The Company is in compliance with ORS 731.508 in that all reinsurance agreements contained insolvency clauses that make payments to the Company's statutory receiver without diminution because of the insolvency of the ceding insurer.

The Company does not retain any risk on any one subject in excess of ten percent (10%) of its surplus to policyholders as required 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, 1995 annual statement and were maintained

in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company maintains records on mainframe and personal computers.

The Company reports unclaimed property to the State in accordance with the provisions ORS 98.302 to 98.436. In addition, all books, records and investments were held within the State of Oregon pursuant to the provisions of ORS 732.245. Disbursements were evidenced by bills, invoices, or statements pursuant to the provisions of ORS 732.320. As of December 31, 1995, the Company did not have a Management Contract or Exclusive Agency Contract in effect which are prohibited pursuant to the provisions of ORS 732.215 and ORS 732.220.

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

### **Investments**

The custodial agreements with the First Interstate Bank of Oregon N. A. covering the services of some investment managers and the short-term securities did not include the following safeguards that are set forth in the NAIC Examiners Handbook:

That the bank is obligated to indemnify the Company for any loss of securities in the bank's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;

That in the event that there is a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

I recommend the custodial agreement with the bank be modified to incorporate the clauses described above in order to comply with the provision of ORS 731.574(6), 731.302 and the NAIC Examiners Handbook (see Part 2- 2G8).

### **Actuarial Examination**

The Oregon Insurance Division's consulting actuaries, Taylor-Walker & Associates, made the following recommendations as a result of this examination:

1. In the future the Company should indicate the valuation interest rate for life insurance reserves listed in exhibit 8, Part A.
2. In the future, the Company should discontinue including, as a part of the total reserves liability for converted policies, the total cash values. Such an amount is extraneous when the amount of the mean reserves is already set up.
3. In the future, the Company should discontinue including the amount of unearned premiums for converted policies in the reserve liability. Rather, the amount of the deferred and uncollected net premiums should be set as up as an appropriate asset amount.
4. For converted policies issued during 1996 and later, the policy forms should no longer provide for a 5.5% valuation interest rate or a 7% cash value interest rate. The current maximum valuation interest rate is 5% and the corresponding current cash value interest rate is 6.25%.

All recommendations were made pursuant to the provisions of ORS 733.030.

### **Accounts Receivable for Terminated Groups**

During the course of 1995 year end audit conducted by Deloitte & Touche LLP, it was noted that certain accounts receivable related to terminated groups should have been written off, the majority of which related to years prior to 1995. According to a discussion the Company personnel, the terminated groups had not been written off due to a misunderstanding in how terminated groups were to be coded in the system. Although a revenue financial report identified accounts receivable related to groups that had been terminated, the report was not being reviewed and such uncollectable accounts receivable went undetected. This is contrary to the provisions of ORS 733.170.

I recommend the Company comply with the provisions of the above code section by ensuring that terminated groups are properly terminated on the system and by reviewing the revenue financial report in a timely manner. It should be noted that the accounts receivable were correctly reported by the Company in the 1995 annual statement.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company has complied with all recommendations made in the 1991 report of examination.

**OREGON PACIFIC STATES INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, & SURPLUS**  
**As of December 31, 1995**

<b>ASSETS</b>	<b>Ledger Assets</b>	<b>Non Ledger/ Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds (Note 1)	\$ 8,983,648	\$	\$ 8,983,648
Preferred stock (Note 1)	38,850		38,850
Common stock (Note 1)	2,419,920		2,419,920
Cash (Note 1)	163,267		163,267
Short-term investments (Note 1)	2,105,221		2,105,221
Amounts recoverable reinsurance	57,201		57,201
Experience ratings refunds	1,694	(1,694)	
EDP equipment	18,834		18,834
Life premium deferred & uncollected	1,170,023	(21,704)	1,148,319
A&H prem. due & unpaid	10,299		10,299
Investment income due & accrued	122,986		122,986
Receivable-affiliates	784,274		784,274
Furniture & equipment	21,079	(21,079)	
Aggregate write-ins	157,190	(157,190)	0
<b>TOTAL ASSETS</b>	<b><u>\$16,054,486</u></b>	<b><u>\$(201,667)</u></b>	<b><u>\$15,852,819</u></b>
 <b><u>LIABILITIES AND SURPLUS</u></b>			
Aggregate reserves-life policies (Note 2)			\$ 2,003,907
Aggregate reserves-A&H policies (Note 2)			167,674
Supplementary contracts without life contingencies			10,466
Policy and contract claims - life (Note 2)			1,555,562
Policy and contract claims - A&H (Note 2)			862,822
Premiums and annuity considerations received in advance			75,649
Provision for experience rating refunds (Note 2)			917,377
Interest maintenance reserve			87,672
Commissions to agents due or accrued			56,230
General expenses due or accrued			58,431
Taxes, licenses & fees due or accrued			51,059
Federal income taxes due or accrued			347,205
Asset valuation reserve			573,329
Payable to affiliates			1,608
Aggregate write-ins			235,853
<b>TOTAL LIABILITIES</b>			<b><u>\$ 7,004,844</u></b>
Common stock			1,200,000
Gross paid in and contributed surplus			1,350,000
Unassigned funds			6,297,975
<b>TOTAL SURPLUS</b>			<b><u>8,847,975</u></b>
<b>TOTAL LIABILITIES &amp; SURPLUS</b>			<b><u>\$15,852,819</u></b>

**No Adjustments Were Made As A Result Of This Examination**

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE  
FINANCIAL STATEMENTS**

**OREGON PACIFIC STATES INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**For The Year Ended December 31, 1995**

Premiums and annuity considerations	\$10,174,415
Considerations for supplementary contracts without life contingencies	11,231
Net investment income	725,407
Amortization of interest maintenance reserve	<u>14,778</u>
<b>TOTAL INCOME</b>	<b><u>10,925,831</u></b>
Death benefits	3,995,951
Disability benefits and benefits under A&H policies	2,044,013
Payments on supplementary contracts without life contingencies	27,553
Increase in aggregate reserves for life and A&H policies	165,067
Increase in reserves for supplementary contracts without life contingencies	<u>(16,322)</u>
<b>TOTAL BENEFITS</b>	<b><u>6,216,262</u></b>
Commissions on premiums and annuity considerations	670,762
General insurance expense	2,642,323
Insurance tax, licenses and fees excluding federal income taxes	107,155
Aggregate write-ins for deductions	<u>6,141</u>
<b>TOTAL BENEFITS AND EXPENSES</b>	<b><u>9,642,643</u></b>
Income before policy holders dividends & federal tax	<u>1,283,188</u>
Dividends to policyholders	<u>0</u>
Income before federal tax	<u>1,283,188</u>
Federal income tax	<u>200,760</u>
Income before realized capital gains	<u>1,082,428</u>
Net realized capital gains	<u>125,269</u>
<b>NET INCOME</b>	<b><u>\$1,207,697</u></b>

**CAPITAL & SURPLUS ACCOUNT**

Capital and surplus, December 31, previous year	<u>\$7,349,218</u>
Net income	1,207,697
Change in net unrealized capital gains and (losses)	381,390
Change in nonadmitted assets	33,939
Change in asset valuation reserve	<u>(124,269)</u>
Net change in capital and surplus for the year	<u>1,498,757</u>
Capital and surplus, December 31, current year	<u>\$8,847,975</u>

**No Adjustments Were Made As A Result Of This Examination**

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE  
FINANCIAL STATEMENTS**

**OREGON PACIFIC STATES INSURANCE COMPANY  
RECONCILIATION OF EXAMINATION CHANGES  
Examination as of December 31, 1995**

After evaluation of the assets and providing for all known liabilities and surplus, no changes were made to the surplus reported by the Company as of December 31, 1995.

Policyholders surplus per Company, December 31, 1995 \$8,847,975

<u>Examination Changes</u>	<u>Increase</u>	<u>Decrease</u>
Assets	\$0	\$0
Liabilities	0	0

Policyholders surplus per examination, December 31, 1995 \$8,847,975

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Location of the Assets**

Bonds, stocks, cash and short-term investments which account for 71.29% of the total assets, were located as follows:

**Bonds**

First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	\$8,524,371
Deposit with Idaho First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	204,047
Deposit with the state of Montana US National Bank of Oregon Investment Division PO Box 4412 Portland, OR 97208	255,230
Total Bonds	<u>8,983,648</u>

**Stocks**

Preferred stocks	38,850
First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	
Common stocks	2,419,920
First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	
Total Stocks	<u>2,458,770</u>

**Cash**

First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	(17,968)
Western Bank PO Box 1047 Medford, OR 97501	96,242
The Bank of California PO Box 3121 Portland, OR 97208	(16,000)
US National Bank of Oregon PO Box 2758 Portland, OR 97208	100,993
Total cash	<u>163,267</u>

**Short-term investments**

First Interstate Bank of Oregon, N.A. PO Box 3131 Portland, OR 97208	1,605,221
Health Plan Capital Service Corporation All documents are located at the head office 100 SW Market Street Portland, OR 97201	500,000
Total short-term investments	<u>2,105,221</u>
Total Invested Assets	<u>\$13,710,906</u>

## **Note 2 - Actuarial Examination**

Taylor-Walker and Associates determined the adequacy of the following line items in the balance sheet:

	<b><u>Per Company</u></b>	<b><u>Change</u></b>	<b><u>Per Examination</u></b>
Aggregate reserves for life policies & contract	\$2,003,907	\$0	\$2,003,907
Aggregate reserves for A&H policies	167,674		167,674
Policy and contract claims:			
Life	1,555,562		1,555,562
A&H	862,822		862,822
Provisions - experience rated refunds	917,377	0	917,377

The reported balances were determined to be adequate by Taylor-Walker and Associates.

### **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.

#### Page

15 I recommend in the future the Company maintain compliance with the provisions of ORS 732.551 and OAR 836-27-010 by properly filing the holding company registration on or before the due date.

19 I recommend the custodial agreement with the bank be modified to incorporate the indemnification clauses in order to comply with the provision of ORS 731.574(6), 731.302 and the NAIC Examiners Handbook.

19 The Oregon Insurance Division's consulting actuaries, Taylor-Walker & Associates, recommend that:

In the future the Company should indicate the valuation interest rate for life insurance reserves listed in exhibit 8, Part A.

In the future, the Company should discontinue including, as a part of total reserves liability for converted policies, the total cash values.

In the future, the Company should discontinue including the amount of unearned premiums for converted policies in the reserve liability. Rather, the amount of the deferred and uncollected net premiums should be set as up as an appropriate asset amount.

For converted policies issued during 1996 and later, the policy forms should no longer provide for a 5.5% valuation interest rate or a 7% cash value interest rate. The current maximum valuation interest rate is 5% and the corresponding current cash value interest rate is 6.25%.

All recommendations were made pursuant to the provisions of ORS 733.030.

- 20 I recommend the Company comply with the provisions of the above code section by ensuring that terminated groups are properly terminated on the system and by reviewing the revenue financial report in a timely manner.

### **SUBSEQUENT EVENTS**

No material transactions or events occurred subsequent to December 31, 1995, and before the examination cut-off date.

### **CONCLUSION**

During the 4 year period covered by this examination, the surplus of the Company has increased from \$6,167,340 as presented in the December 31, 1991, report of examination to \$8,847,975 as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<b>December 31,</b>		
	<b><u>1995</u></b>	<b><u>1991</u></b>	<b><u>Change</u></b>
Assets	\$15,852,819	\$12,706,647	\$3,146,172
Liabilities	<u>7,004,844</u>	<u>6,539,307</u>	<u>465,537</u>
Surplus	<u>\$ 8,847,975</u>	<u>\$ 6,167,340</u>	<u>\$2,680,635</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, Timothy R. Hurley, CFE, David L. Daulton, AFE, Mike P. Phillips, CFE, CPA, Patricia G. Neesham, CPA, AFE, Janice A. Leith, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, and Robert D. MacLennan, FSA, MAAA, from the firm of Taylor-Walker & Associates, Midvale, Utah, participated in the examination.

Respectfully submitted,

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Neeraj Gupta, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Neeraj Gupta, CFE, being duly sworn, deposes and says that the preceding report of financial examination as of December 31, 1995, of Oregon Pacific States Insurance Company of Portland, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

\_\_\_\_\_  
Neeraj Gupta, CFE  
Supervising Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 1996.

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

My Commission Expires:\_\_\_\_\_